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# SUBSIDIZING THE PERFORMING ARTS





# Subsidizing the Performing Arts

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Edwin G. West

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# 1

## Introduction

### BACKGROUND

Those who care to examine the current and recent state of the performing arts in Canada will find it replete with surprises. Refreshingly, this has been a resilient and upbeat area of the economy over the last decade, even during recessions. Employment in the arts industry in Canada between 1971 and 1981 increased by 58 per cent compared with 39 per cent for all industries in the nation. The subcategory of theatrical entertainment, upon which this book concentrates, experienced a labour force growth over the same period of 127 per cent, a remarkable development by any standard. Not surprisingly, Ontario has shared fully in this cultural boom. Over the same ten-year period, the number of dancers, choreographers and actors in the province nearly trebled, the number of producers and directors doubled, and the population of musicians grew by 74 per cent.

Even more arresting has been the fall in performing arts costs in the period. Total cost per performance dropped by 57 per cent while cost per spectator decreased from \$5.76 to \$4.57 (in constant 1971 dollars). It is true that such figures do not standardize for output. The data would be less impressive, for instance, if there had been a simultaneous fall in the quality of performances in the sense of less expensive productions involving smaller casts. The evidence shows, however, that the number of professional actors grew by over two-and-a-half times while attendance increased by less than this proportion, which suggests that, if anything, cast sizes increased.

Such robust growth raises the question whether Canada's per capita public expenditure on the arts is beginning to approach that of commonly acknowledged leaders in cultural endeavour, especially among European countries. Taking combined levels of government assistance to culture

in general, we find (see Chapter 5) that support per head in Canada has in fact now reached typical European levels. Compared with Austria, France, West Germany, Britain and Sweden, only the latter country has a significant lead over Canada. Canada's public expenditure on culture is much greater than that of Britain and West Germany and almost matches that of Austria and France.

But can we precisely link Canada's growth in cultural activity to subsidization? Public subsidies have certainly not been trivial. In 1981, for instance, the Canadian total of federal, provincial and municipal government subsidies was over \$50 million. Total public expenditure in Ontario was over \$22 million. Meanwhile, private subsidies in Canada – originating from individual, corporate and foundation donors – reached \$17 million by 1981. The fact remains, however, that the greatest single source of revenue has been that derived from ticket sales.

Such evidence raises still further questions relating to both policy formation and economic theory. Why, for instance, has there been a relative increase in private donations even during the recession? Do public grants crowd out private giving or vice versa? Why do the arts councils channel public grants exclusively through nonprofit organizations? How do the arts councils set their priorities and how efficient are they in fulfilling their stated goals? Why is public aid typically distributed via lump-sum grants to suppliers? Why are demand-side subsidies (vouchers) not employed?

Many economists prefer to avoid policy prescriptions and to concentrate on positive economic explanations of observed phenomena. A considerable part of our report is indeed taken up with attempts to explain the world as it is. In this vein we try to determine why existing subsidy patterns are what they are and why the public agencies behave in the ways they do. Elementary economic theory is also applied to help predict the behaviour of the typical arts 'firm' which, in this case, usually means 'nonprofit organization'. More ambitiously, we have tried to break new ground with surveys of public attitudes and preferences concerning both the levels of 'cultural taxes' and the direction of public expenditures on the arts.

But while positive economics is a large part of our report, we have not been able to resist the temptation to enter into the field of normative issues. Indeed, it is hardly imaginable that any economist could avoid attempting some assessment of all the different arguments initially used to justify government subsidy. It is even more difficult for the economist to avoid analysing the equity implications of public support of the arts. It is a sensitive fact worthy of discussion that the typical theatre audience in Canada, as in most other Western countries, is well-heeled, highly



educated and prominently features the top professions and occupations. We have also been tempted into the field of policy prescriptions, and these are presented with full awareness of the many problems of political implementation. The attempt, in short, has been to explain, instruct and prescribe in ways that employ relevant economic analysis.

We proceed now to a brief overview of Chapters 2 through 11.

## OVERVIEW

*Chapter 2 – The rationale of government intervention.* Here we provide a straightforward exposition of the various arguments in the current literature concerning the need for government intervention in the arts. It is important that the reader understand that the major purpose of this chapter is to present a 'glossary' of terms and arguments in the debate. While we do touch upon critical assessments of these arguments here and there in the chapter, this is not the immediate purpose; rather, it is to establish a currency of language and reasoning that can be used later as our report unfolds. Appraisal of the relevance of each separate argument for intervention will slowly emerge in subsequent chapters as different issues are addressed. Final judgement is most comprehensively presented in Chapter 11.

The material in Chapter 2 covers the conventional arguments for intervention that are based on public-good theory and the theory of externalities. Both accept as a datum the given preferences of the public and look for methods of satisfying them that are more efficient than those of the ordinary market process. In contrast, the policy of 'merit-good provision' does not accept the preferences of the public but attempts to change them in favour of higher cultural consumption. As explained in Chapter 2, merit-good theory is outside the tradition of welfare economics because of the implications of paternalism. Yet as a potential component of positive economics, the theory is often employed to help explain the real world.

*Chapter 3 – The performing arts in Ontario.* This chapter outlines the growth of artistic activity generally in Ontario and Canada since the Report of the Massey Commission in 1951. A description is provided of the main methods of government assistance to the arts. The primary support is via government grants that are invariably directed to individual artists or artistic organizations. Information is presented showing the full range of the Ontario Arts Council distribution of its funds under various disciplines including, besides the performing arts, film/video, photography and arts education.

The surge in public support in the 1960s and early 1970s is documented in this chapter as is the subsequent check to the rate of growth of subsidization both at the federal and provincial levels. The chapter also produces evidence of the remarkable recent growth of arts activities and employment.

Another striking development of the 1970s reported in this chapter is the emergence of provincial ministries of culture substantially financed by lottery revenues. The growth of lotteries, a direct consequence of federal amendments to the Criminal Code, has resulted in about \$40 million of provincial government lottery support in Canada in 1981-2. This chapter describes the two major lotteries in Ontario – Wintario, introduced in 1975, and Lottario, introduced in 1979.

*Chapter 4 – The economic structure of supply: the performing arts firm.* This chapter presents one of the central theoretical frameworks employed in the report. An exposition is given of the economic theory of the non-profit firm which is the predominant organizational form in the arts. This is followed by an analysis of the granting of lump-sum subsidies to such firms and the reaction of entrepreneurial behaviour. The effect of various market structures from monopoly to perfect competition is examined.

The theory of private donation is explored next and special attention is given to the fact that about 30 per cent of audiences in Ontario (compared with 40 per cent in the United States) donate privately to arts organizations. The practice of efficient price discrimination by arts organizations is also examined as is the special theory offered by Henry Hansmann to the effect that much price discrimination is *voluntary* in the sense that many patrons donate an additional amount to their ticket price if the value they place upon attendance exceeds the price charged.

Following Hansmann's lead, we explore the extent to which private donation is in general a method of paying for services received by the donor. To the extent that this is the case, the word 'donation' becomes a misnomer since what is involved is not a gift but an exchange. If, at one extreme, most donors are indirectly paying for special benefits received, then the economic explanation can be handled in terms of the theory of joint supply. In this case the emphasis by specialists in cultural economics on what they call 'the income gap' is inappropriate. This gap is commonly described as measuring the amount of 'outside support' a company needs in order to produce and present live performing arts; it represents the difference between the costs of putting on performances and the direct earnings of those performances. Yet in the joint supply model,

there is strictly no income gap. There are joint and independent markets for services, each of which generates sufficient income to cover its costs.

If donation consists of genuine philanthropy, then it is likely that the entry of a new donor may, to some extent, crowd out the donation of existing supporters. If, on the other hand, donation is largely an exchange relationship, crowding out is less predictable. Our econometric investigation indicates that if government gives more to a given area of the performing arts, then, typically, so will the private sector and vice versa. There is no evidence, therefore, to suggest that government 'crowds out' private donations to the performing arts at the aggregate level or vice versa. Similarly, our evidence tends to support the proposition that most donations constitute an exchange relationship rather than an act of philanthropy.

*Chapter 5 – Cost tendencies and policy implications.* This chapter examines the hypothesis offered by Baumol and Bowen that the arts industry is disposed to suffer inevitable cost increases that call for continually growing government subsidies. We argue that the dramatic growth of the Canadian arts industry (at growth rates above that of other industries on average) between 1971 and 1981 gives a presumption against the Baumol-Bowen argument. Scientific testing of their hypothesis, however, ultimately requires an appeal to actual data on cost trends. This is also provided in the chapter and it produces yet another surprise. Average cost per performance and per spectator (in constant dollars) over the period actually fell, and substantially so. The conclusion is that such cost declines provide firm evidence against the Baumol-Bowen hypothesis that there is an *inevitable* tendency of cost increases in the performing arts.

*Chapter 6 – The funding agency and its clients.* As an example of positive economics, this chapter attempts to explain the world as it is in terms of the actual institutions through which subsidies are channelled. Attention is focused upon the principal funding agency in Ontario: the Ontario Arts Council.

Two goals are open to such a public agency. The first is to pursue what is called horizontal diffusion so that a given supply of arts activities can be spread over a wider geographical area. An alternative policy is the pursuit of excellence. It is shown that a tradeoff between these two goals does not always appear to be clearly recognized. With respect to diffusion of taste for the performing arts, it is shown that successful policy depends on abundant information concerning current audience characteristics. Using discriminant analysis, we find from the results of our own audi-

ence survey that (among other variables) participation in some kind of performing arts activity in early school years significantly predicts subsequent theatre attendance.

The chapter concludes with an examination of the role and position of the artist in Canada and Ontario.

*Chapter 7 – Demand-side versus supply-side subsidies.* This chapter assesses the case for some degree of switching from supply-side subsidies, such as the typical lump-sum grants to theatres, to demand-side assistance, such as the provision of consumer 'coupons' that involve, in effect, ticket-price discounts.

In view of the frequent claim that the demand-side approach is hypothetical, or theoretical, evidence is produced to show the successful implementation of it in Britain and the United States. Reference is also made to the recent 'Half-Back' system used by the Wintario lottery in providing theatre ticket discounts.

*Chapter 8 – The characteristics of Ontario audiences.* Audiences in Ottawa, Toronto, St Catharines, Hamilton, Sudbury and Thunder Bay were surveyed at the end of 1983. The full results are reproduced in this chapter and in Appendix A. One of the findings was that at least four-fifths of audience members had earnings above the Canadian individual median income for 1983. Such a finding matches several other investigations, especially in the United States. Our survey also revealed that above-average education was an important feature of Ontario audiences. Among respondents in our survey, 67 per cent had university or graduate-school education, which compares with 8 per cent for the population as a whole. These results are also paralleled in the United States.

Similarly, audiences were found to belong to relatively high-level occupations. Thus, 27 per cent of respondents reported themselves as holding executive/managerial positions. This compares with 7 per cent in the Ontario population as a whole. Another 25 per cent was made up of teachers, professors or students whose occupations are characterized by a high educational level relative to income.

Our survey also revealed a poor knowledge among audience members of how the arts in Ontario are financed.

*Chapter 9 – Measuring external benefits.* Having produced one survey of audiences, it was immediately obvious that there was a need for a further survey on the public at large. A major question here is whether, in view of the fact that the majority of people do not attend theatres, people in general are willing to have themselves taxed to provide the



necessary subsidies. One theory, already described in Chapter 2, is that nonusers of the arts will still willingly accept taxation for the purpose because certain external benefits are generated – such as feelings of national pride. Our survey questions probed for this kind of phenomenon and some weak evidence for it was found.

A more ambitious task was to attempt to evaluate the precise level of support that the public was willing to offer. Of course a major problem with surveys has been the difficulty in devising incentives so that people will report their sincere preferences. Economist Peter Bohm has recently reported a more practical way to increase the degree of sincerity in respondents' answers to questionnaires. Subsequently, two leading Australian specialists in cultural economics, Throsby and Withers, produced their own research findings using Bohm's method to investigate the Australian public's views on subsidies to the arts. Our second survey is based on the Throsby and Withers approach.

*Chapter 10 – Issues of equity.* The evidence gained from our survey of Ontario audiences suggests that the income distribution effects are 'perverse'. The sensitive question therefore arises as to why poor non-users are compelled to pay taxes that subsidize the entertainment of the more affluent.

The proposition is explored that nonusers are fully compensated by the external benefits they enjoy. Consider, however, two individuals in the same income group. Assume that both of them receive external benefits from arts subsidies and of the same magnitude. If one of the two individuals is a theatre-goer, he will enjoy the benefits of subsidy to the direct use of theatres as well as the external benefits. In this case, which must be expected to be a frequent one, horizontal inequity between the two individuals will persist.

An explanation of the existence of the inequity of public arts subsidies is given by way of an application of the economics of politics. It is shown that the arts are no exception. They are only one among literally thousands of economic policies which fit a general model. Other policies that have injurious (inequitable) effects on large numbers of low-income people include tariffs, occupational licensing, price supports and floors, and many other types of special interest legislation.

Returning to normative economics, one way in which inequity could be reduced would be to adopt discriminating policies in favour of subsidies for low-income individuals. This argument, however, is fully addressed in Chapter 11.

*Chapter 11 – Policy conclusions.* In this chapter we relate policy guidelines to the economic analysis of the previous chapters. The potential restrictions (largely political) to the acceptance of such policy recommendations are explicitly recognized.

The chapter first considers arguments for increasing the aggregate level of subsidy and second, arguments for reallocating existing subsidies. It is concluded that not much support can be given to proposals to increase the total subsidy. Even the weak evidence showing that external benefits are recognized among the public does not indicate that *more* finance is necessarily required. It might suggest instead that, at present levels of taxation and expenditures, most of the external benefits have already been internalized. Neither can the Baumol-Bowen hypothesis provide a firm basis for increases in subsidies, especially as the evidence pertaining to it points the opposite way. Similarly, arguments that arts activities produce a desirable economic impact and that they provide benefits for future generations are both rejected as demonstrations that public finance increases are necessarily required.

Yet another reason for believing that the present relative freeze on subsidies to the arts is justified is that market research suggests there will be a healthy growth of demand for the arts in the next decade. Such research focuses upon the expected changes in the future structure of the Canadian population.

While the recommendation for increases in subsidies must be negative, a much stronger case can be made for the reallocation of the existing levels of subsidies. Drawing upon Chapter 7, the main policy innovation recommended is a switch, at least at the margin, from supply-side to demand-side support by way of subsidies to consumers. Again, drawing on the findings of Chapter 6, 8 and 9, a proposal is made for demand-side subsidies designed to expand audiences through the co-operation of the schools. It is emphasized, however, (for reasons arising from the research findings) that the school programs should concentrate on child *activity* in the arts as distinct from conducted visits to professional theatres.

With respect to the balance of supply-side subsidies, the analysis of Chapter 4 is recalled showing that the provision of lump-sum grants – the present typical method of allocation – is the least efficient of all. Changeover to per-unit and/or matching grants is recommended accordingly.

Among other reforms considered is that of the donation subsidy. The main current example is the deductibility of contributions under the federal personal income tax. A case is made for increasing this kind of subsidy. Again, it is argued that such a policy change would begin to meet some of the problems associated with the inequity of the present system.



## 2

# The rationale of government intervention

Even though art today is a public institution, it is an institution without a theory. No coherent thought exists as to its aim or *raison d'être*.' (Jacques Barzun, *The Use and Abuse of Art*, Princeton University Press, 1974, p. 7.)

Government intervention in the arts in Canada can be traced at least to the 1880s when the National Art Gallery was founded. Then, as now, government funds supplemented the donations of individuals and private organizations. Subsidy has not been the only instrument used by the government, however. In the case of broadcasting and film, for example, public corporations have been established with responsibility for production.

The use of subsidies to private organizations as the predominant method started in the 1950s after the Massey-Levesque Commission had recommended the creation of the Canada Council. Its mandate from Parliament was 'to foster and promote study and enjoyment of, and the production of works in the arts, humanities and social sciences'. Today the Council is granting annual subsidies to the arts amounting to over \$50 million while provincial governments are spending nearly one half of that amount; and still, as Jacques Barzun observes (above), no truly coherent thought exists on the basic rationale for such expenditures.

While some may object that conventional economics has no place in an investigation of the arts because of the complexity of the product, the economist can justify his enquiry simply by reference to the above figures. Art absorbs economic resources, sometimes through public revenues that are not trivial. Indeed, the size and allocation of these revenues have been a major focus of the recent series of commissions, studies; and committees examining the role of government in arts and culture.

The best known public enquiry to date has been that of the Federal Cultural Policy Review Committee (Applebaum-Hébert Report) which reported in 1982 on the federal government's role and advised on the best pattern of federal assistance in the future. More recently, there has been the 1984 Macaulay Report for the Ontario Ministry of Citizenship and Culture. Meanwhile, at the international level, UNESCO has been supporting comparative research on the general cultural development of societies, and, in collaboration with the Canadian National Commission for UNESCO, a meeting on the subject was organized in Montreal in June 1980.<sup>1</sup>

More relevant for the study of the economics of the arts has been the emergence of an international association of economists specializing in a new branch of their discipline called 'cultural economics'. This group has sponsored as many as three international conferences since 1979 (the last one in April 1984) and has established a new learned journal on the subject.

Cultural economics can be divided into positive analysis that attempts to explain current facts and why we have come to inherit the particular institutions that currently prevail, and normative analysis, in the form of a search for ideal sets of tax/subsidy arrangements. Here we shall focus exclusively on the latter while most of the rest of this report will deal with positive economics. The major part of this chapter will be a survey of the many rationales that have been put forward in the literature for government intervention. The main focus of the study will be on the performing arts, which combines the areas of theatre, music, ballet and opera. As observed in the introduction, the main purpose of this chapter is to acquaint the reader with a glossary of terms and arguments that are used in the literature of cultural economics. Our main assessment of the arguments to be reviewed will be found in subsequent parts of this report.

#### THE ROLE OF GOVERNMENT

Attempts to construct a consistent argument for government subsidies to the arts have been featured in the economics literature since the mid-1960s. Lord Robbins once observed that economics can be applied to the arts only when one wants to know the implications of decisions that have already been made by the 'authoritarian element in society'. Economists, in other words, are legitimately occupied exclusively in the choice of the best means or incentives for pursuing the target once that target had already been decided upon. (Robbins 1971, 3-19) Not everybody would agree with Robbins's position, however. Some would maintain that in a democracy the preferences of politicians should at least be

connected with those of the electorate. But even if Robbins's argument is accepted, the economist will require at least some clear statement of policy makers' preferences; in their absence, as Blaug has observed: 'if we cannot discover his [the policy maker's] preference function we can neither evaluate his past decisions nor improve his future ones (Blaug 1976).'

David Austen-Smith (1980) has argued similarly that, bearing in mind that subsidizing is an act undertaken for its consequences, these consequences 'must be at least implicit in the rationale for the decision to subsidize per se.' Austen-Smith proceeds to treat arguments for subsidy under two headings: extrinsic arguments and intrinsic arguments. Broadly speaking, the former refer to arguments about 'market failure' and the need for the provision of what are technically known as public goods, while the latter concern arguments based on paternalistic or 'merit-good' reasoning. This dichotomy is now standard in the literature and I shall treat each heading in turn.

#### PUBLIC GOODS

As is well known, the term 'public good' in economics refers to a good the consumption of which is *nonrival*. This means that the partaking of the consumption benefits by one person in society does not reduce the benefits derived by all others. Another common feature is nonexcludability. This refers to the difficulty of excluding from the benefits any person who is not willing to pay for them. Consider, for example, the production of a television beam. Once transmitted, it is very difficult to stop individuals from tuning in to obtain its benefits free of charge. This in turn has created the now familiar 'free-rider' dilemma in which nobody wants to produce the good because nobody is willing to pay sufficiently to cover the costs. To resolve the dilemma, it is argued, the government should step in and 'coerce' contributions for the public good through compulsory taxes. This event is not real coercion, however. People will consent to the arrangement because they will be better off as a result of the way their tax contributions are spent on their behalf.

The economist Paul Samuelson has used the traditional example of the lighthouse: 'Its beam helps everyone in sight... a businessman could not build it for profit since he cannot claim a price from each user. This certainly is the kind of activity that governments would naturally undertake.'<sup>2</sup> Other examples of pure public goods are national defence, the maintenance of public safety, and street lighting.

The extent to which artistic goods and services can be said to meet the definition of pure public goods is a debatable issue. Most people purchase artistic output through market transactions such as tickets of admission

or by buying books or paintings the benefits of which are confined to them. Some would argue that the present organization of television broadcasting comes close to a public good. Others maintain that alternative organizations such as pay television are available that could convert this medium to a series of private goods. In fact, technical change is always shifting the border between public and private goods.

Less ambiguous examples of public goods in the field of culture include public monuments or sculptures and murals. Since these works are usually in public places, no one person can be denied access to them, whether or not they pay for its use. It should be observed, however, that public goods can be privately produced as in the case of sculptures that are commissioned by large corporations or churches. With *performing arts*, the branch of culture with which this study is primarily interested, it appears particularly difficult to illustrate with a clear public-good example as distinct from an external-benefit example.

#### EXTERNAL BENEFITS

When a person purchases some artistic good or service from the market, the benefits may spill over to other individuals who do not participate in the transaction. If these 'spillover' benefits are significant at the margin, it is concluded that society is underproducing the good in question (although the precise degree of underproduction is seldom demonstrated). There is then an *a priori* argument that the government could intervene with a tax subsidy policy that could result in suitable expansion of the artistic activity. It is such reasoning about externalities that often encourages people to believe that serious deficiencies may occur in the amount spent on artistic endeavours in the real world, deficiencies that might be corrected by the interventionist means described. Economists have suggested the following external benefits with respect to the arts.

##### *National pride*

The proposition here is that the arts, including the performing arts, enhance national or local identity, national pride and international prestige (Baumol and Bowen 1966, 382-3). The argument is that individuals who do not directly consume artistic services – who, for instance, have no wish to go to the opera or the ballet – nevertheless 'take pride in the international recognition conferred on our singers and the creativity of our choreographers' (ibid.). For there to be a relevant external benefit, however, such persons must not only take pride in his or her fellow nationals' cultural achievements but the intensity of that



pride must be such that those who enjoy it are willing to pay a price in the form of a willingness to be taxed. The extent of this willingness in Ontario and Canada is an empirical matter that has so far not been tested. We shall attempt to do so in Chapter 9.

### *Economic impact*

A second external benefit that Baumol and Bowen attribute to the arts is the economic stimulus it brings to the immediate environment. Individuals who are attracted to theatres tend to spend money in shops, restaurants and hotels in the vicinity. Empirical studies to test this proposition have been conducted in the United States by the National Endowment for the Arts (1981). A formal model that specifies the relationships to be tested has been produced by Cwi and Lyall (1977). These kinds of investigations apparently have had some marginal effect in persuading politicians in the United States that the arts industry is more significant to the local economy than was at first believed. Arts authorities in Canada are now making similar arguments and these arguments will be reviewed and assessed in Chapter 9. To anticipate briefly our own response to this line of argument, consider the following two kinds of criticism. First, the proposition that the arts have a favourable economic impact on an area may have validity, at best when there are significant unemployed resources. Unfortunately, the literature chooses not to dwell on this requirement. Second, even when the necessary condition of unemployed resources is met, the advocates of the economic impact argument typically neglect the opportunity cost of public money spent on the arts: economic recovery could be accomplished by public money spent on alternative projects such as, for example, physical recreation facilities or infrastructure.

### *The educational contribution*

A third type of indirect benefit mentioned by Baumol and Bowen is the educational contribution. Since it is generally conceded that a liberal education confers indirect and direct benefits upon the community, the same must be true of the arts, as the existence of performing arts is interdependent with liberal arts education. Drama, for example, cannot be taught if there is no drama available to experience. The same is true of music: 'what can the teaching of music mean if no one can hear performances of professional quality?' (Baumol and Bowen 1966, 385) Attendance at, say, a performance of *Hamlet* is just as much a part of a liberal education as attendance at a lecture on the play. If it is right to

**subsidize the latter** (as we do) as part of our education policy, it is right to **subsidize the play too**.

**Most people would be sympathetic with such sentiments. It is overstating the case, however, to argue that *no* drama would be available for the student to experience and *no* performances of professional quality music would occur in the absence of government subsidy.** Present federal subsidies account for only one-sixth of total artistic output. The normative issue here is the relevance of the external benefits *at the margin*. If a further increment of external benefits from a one-percent increase in artistic activity induced by government intervention outweighs the necessary costs (disbenefits) to the taxpayers, the policy should be adopted.

### *Future generations*

The argument here is that 'funds must be provided today if the arts are to be kept alive for tomorrow. A program to preserve the arts for the nation's prosperity is a case of indiscriminate benefits *par excellence*' (ibid.).

In terms of stricter welfare economics, it must be assumed that the act of bestowing cultural benefits for future generations generates utility for members of the *present generation*. The preferences of future generations, after all, cannot be known and the future citizens are obviously not here to express them. Decisions made in the present have many consequences on future generations and not all of them have an artistic aspect. The present decision to save and to undergo capital formation, for instance, results in the passing on to the future items of durable goods, and many of these are inherited by future generations. Most of these durable goods, moreover, can be bought and sold in the market. Sculptures and paintings, as capital assets, can be passed on through family kinship bequests. Moreover, as Smith (1983) points out, where the cultural product is expected to be long-lasting, market forces can reflect present and future benefits to the extent that the latter are currently known. It is not inevitable, therefore, that a government should take exclusive responsibility for transmitting culture to future generations. Issues of equity concerning transfers to future generations will be examined in Chapter 10.

### *Cross-media training*

It is often the case that formal training in one of the arts (e.g., traditional theatre) can be transferred and adapted to another dimension (e.g., television or movies). Firm evidence of this, however, is not forthcoming.



But even though it can be demonstrated that training in one medium helps prepare for employment in another, the question arises whether the artists themselves should not bear the necessary costs. Globerman has pointed out that if the cross-media training effect is present, then an artist's 'marketability' is increased because of a broad background and training in several different art forms. In other words, externalities in the form of cross-media training can be largely 'internalized' within the profession because of the higher incomes that they can earn (Globerman 1983, 46).

### *Experimental performances*

Much artistic endeavour is inherently experimental. One can therefore expect many failures to occur. Because other artistic entrepreneurs may gain information from this failure, however, it is argued that a positive externality exists. The same is true concerning the information that is generated by business failures in the non-art world. If one argues for public subsidies for the arts industry on these grounds, then, it may be noted therefore that, by similar reasoning, the government should undertake a vast subsidy program for most other industries as well (ibid., 47). But several other industries *do* receive subsidies. Indeed, an analogy has been drawn between subsidies for art and subsidies for industrial research and development. Abbing (1980, 40) has argued that 'while both arts and sciences offer ways to the same object – knowledge in the broadest sense – the arts do so primarily through our senses and emotions, while science does so primarily through reason. Both create externalities.' In several cases, Abbing points out, industrial designers borrow consciously or unconsciously from certain directions in the arts rather than from specific works of art. For this reason the work of the artist appears free to many producers and consumers. Since the latter cannot be excluded from using the services of the artist, if they are not willing to pay a fee, we have a genuine case of an external benefit.

Because external benefits from experimental arts endeavours are thus likely to be involved, and because such endeavours are risky, it is arguable that risk-sharing via the tax mechanism is the appropriate policy response. This appears to be one of the more compelling arguments for public support. One must acknowledge, nevertheless, that the *precise* implications for public policy are still not indicated. The difficulty lies in the inability to measure accurately the public worth of the external benefits. Where a market does not exist to register preferences, one must resort to nonmarket means, and this usually calls for particularly difficult political judgement – although no more difficult

than in the case of industrial research. This question will be readdressed in Chapters 10 and 11.

#### ART AS A MERIT GOOD

In Chapter 3 of the Applebaum-Hébert Report, it is argued that it may not be enough simply to remedy market failures (for instance, failures to internalize externalities). What may be required in addition, the Report suggests, is a 'merit good policy'. Since this concept is now widely used in the cultural economics literature,<sup>3</sup> it will be helpful here to present some brief discussion of it.

The merit-good case should be carefully distinguished from that based on externalities and public goods. The latter relate to social wants whose satisfaction is subject to the principle of consumer sovereignty through, for instance, a system of taxes on individuals that are just equal to the marginal benefit of the publicly provided or subsidized good. A merit-good policy, on the other hand, is directed not to the satisfaction of consumer sovereignty, but to the imposition of a specific consumption upon the consumer. Subsidies that are used to provide for the merit wants come implicitly from revenues provided exclusively from the families whose preferences are to be changed.

Strictly, the merit-good argument falls outside traditional welfare economics, which assumes that individual preferences are to be respected. The merit-good policy overrides individual preferences and substitutes those of an informed group. As the originator of the idea, Richard Musgrave, observes:

While consumer sovereignty is the general rule, situations might arise, within the context of a democratic community, where an informed group is justified in imposing its decisions upon others . . . the advantages of education are more evident to the informed than the uninformed, thus justifying compulsion in the allocation of resources to education. (Musgrave 1959, 14)

In this quotation, education is used as one illustration. Applied to our subject, the argument would be that 'the advantages of art are more evident to those informed (experienced) about the arts than to the uninformed (unexperienced), thus justifying some "coercion" in the allocation of resources to art.' The arts could be viewed by the informed group, for instance, as a humanizing force that leads eventually to a happier and more successful society. But in contrast to the case of education, where a merit-good policy is partly implemented by direct compulsion, the usual policy envisaged in the case of art is simply the

establishment of a tax-subsidy system (or package) that is imposed on individuals in order to achieve the 'socially desired' quantity of consumption.

Another form of merit-good policy takes the form of what Musgrave (1959) calls a 'temporary interference' with choice, the result of which will ultimately liberate the individual from his own current tastes or choices that he will later recognize to be inferior. The policy, in other words, would then be self-liquidating. For Canada, the implication of this version of Musgrave's merit-good policy would be that such organizations as the Canada Council and the provincial arts councils could eventually be scaled down. In reply, it may be argued that because new members are constantly joining the population there is always some 'merit-good work' to be done by government. This does not so easily follow, however, if we assume communication of tastes through families. If we believe this assumption to be inappropriate then the focus of policy will eventually be primarily on the subset of the population up to, say, sixteen years of age. This would, of course, involve a merging of arts policy with education policy to a much greater extent than at present.

#### THE BAUMOL-BOWEN THESIS

Assume a two-sector economy wherein the productivity of labour is constant in sector one while, in the other, it grows at a constant rate of increase. It can be shown that the labour costs per unit of output will grow without limit in the first sector and remain constant in the second. In addition, we would expect that the demand for output in sector one would fall relative to that of sector two.

The above scenario captures the essence of the Baumol-Bowen (B/B) thesis that was offered in their 1966 volume. Generally, the performing arts sector was described as approaching the description of sector one above, whereas most of the rest of the economy approached sector two. The result is an inevitable differential in the rate of growth between arts and other sectors that places such upward pressure on costs as to gradually price arts out of the market. The implication is that a policy of continuous and increasing government subsidy is required to prevent such cultural erosion. This does not appear, however, to constitute an *efficiency* argument in favour of subsidization of the arts. Instead one could describe it as a merit-good argument in different guise.

Subsequent debate on the B/B thesis has focused (a) on case studies that sometimes support and sometimes challenge the assumption that productivity improvements in the arts are as low as the thesis implies; and (b) on the possibility that the income effects from productivity growth in the non-arts sectors will lead to 'sufficient' increases in de-

mand that compensate for the increases in costs so that the arts do not decline. An examination of both of these arguments will be offered in the context of recent empirical data for Ontario and Canada in Chapter 5.

So much for the different arguments for government intervention. It will next be necessary to examine them in the light of experience in Ontario and Canada. The first preliminary is a statistical perspective. This is provided in our next chapter.

#### NOTES

- 1 The major proceedings are contained in UNESCO-ANU (1982).
- 2 Paul Samuelson (1970) *Economics*, 8th ed. (New York: McGraw-Hill), p. 151. The lighthouse as an example has since been challenged by R.H. Coase (1974) 'The lighthouse in economics'. *Journal of Law and Economics* 17 (October) 375-376.
- 3 See, for example, Cwi (1984, 40); Netzer (1978, 26-7); Throsby (1982, 244); for a critical appraisal, see A.L. Hillman, 'The notion of merit wants'. *Public Finance*, 35: 213-26.



### 3

## The performing arts in Ontario

Since the 1950s the growth of artistic activity in Ontario and Canada has been remarkable. The early fifties, for example, saw the founding of the Canadian Opera Company, the Crest Theatre and the National Ballet of Canada. The Stratford Festival started its first performances in 1953 and in 1957 the Canada Council was established. Ontario's provincial government subsidies were made at this time through the Ministry of Education, and among the earliest recipients were the Toronto Symphony, the National Ballet, the Canadian Opera Company and the National Theatre School. The Ontario Arts Council, originally the Province of Ontario Council for the Arts, was established in 1963 when it took over the Ministry of Education's cultural subsidy commitments.

### SPONTANEOUS DEVELOPMENT

The degree to which the growth of the performing arts in Ontario was influenced by the intervention of the government agencies mentioned is not easily determined. The Massey Commission, which produced its Report on National Development in the Arts, Letters and Sciences in 1951, spoke of a great yearning among the public for cultural development. If this was indeed the case, then one could have expected a spontaneous surge in the supply of artistic activity in response to the growth of demand, even in the absence of the arts councils. The subsequent rise in real incomes would have strengthened the trend. Two other conducive circumstances, according to the 1984 Macaulay Committee for the Arts in Ontario<sup>1</sup> were (a) the new wave of European immigration which expanded the population of urban and cosmopolitan people who had developed tastes for cultural activity; and (b) the growth of Toronto beyond the threshold required to support 'an integrated

network of altered facilities, a pool of artistic talent and a rich spectrum of audiences.' (Chartrand 1983)

#### THE SPECIAL INFLUENCE OF EDUCATION

Yet another circumstance encouraging cultural growth has been the increase in the number of people with postsecondary education. Most of the audience surveys in Ontario and Canada show that theatre patrons are highly educated. Our own survey, reported in Chapter 8 and Appendix A, strongly confirms this.

Evidence for Ontario is contained in a study by Book and Globerman (1975). It showed that 63 per cent of all the Ontario theatre audiences these authors surveyed had some postsecondary education and that 39 per cent held university degrees. A Stratford Festival survey published in 1982 reported higher levels among attenders: 85 per cent had postsecondary education and 52 per cent were university graduates (McCaughey 1984, 26). Among respondents to our own survey (see Chapter 8 and Appendix A), 67 per cent had university or graduate-school education, compared with 8 per cent for the population as a whole in 1983.

The adult (over 15 years) population with some postsecondary education rose from 12 per cent in 1965 to 26 per cent in 1977, and the proportion had been steadily increasing before that (Macauley Commission 1984, 2/15). It is reasonable to conjecture that the expansion of cultural activities would have been encouraged by this growth of higher education alone even in the absence of government subsidies to the arts.

#### PUBLIC SUBSIDIES

Government support for the arts invariably comes in the way of assistance to the supply side of cultural activity. Thus the Canada Council provides six types of grants to individual artists, including travel grants. Beyond this it provides aid to artistic organizations. This includes operating grants to sustain ongoing operations, project grants to support specific one-time activities of arts organizations, and grants to support tours by Canadian performing artists or to assist foreign companies touring in Canada as part of cultural exchanges. Most grants to organizations would be categorized by economists as lump-sum subsidies. In 1982-3 the Canada Council allocated \$52.5 million in this way. This accounted for the bulk of its expenditure; grants to individuals totalled only \$7 million.

A similar pattern of support for the supply side, as distinct from support that goes directly to potential *demanders* (by means of vouchers,



for instance), is found in the expenditure practices of the Ontario Arts Council (OAC). An example of the OAC's distribution of public funds is contained in Table 1. This table usefully shows the full range of the OAC's commitments including those to activities other than the performing arts. The relative strengths of the support between disciplines can easily be ascertained. Music received about as much aid in 1981-2 as did literature and the visual arts combined. Dance enjoyed a little more assistance than film/video and photography. Arts/education received about 12 per cent of the amount received by dance, music and theatre combined. Again, most of the grants could be described as lump-sum subsidies. It would appear also that more than half of the funds go to organizations and most of the rest to individual artists.

The 1960s and early 1970s were the years of strongest growth in public subsidies from all levels of government. Federal expenditure on culture generally grew from about \$56 million (constant 1971 dollars) in 1970-1 to about \$103 million in 1975-6. Roughly speaking, during the rest of the 1970s, growth in annual expenditure was quite small on average. In real terms the federal expenditure in 1979-80 was only 3.4 per cent higher than in 1975-6. (Canada Council, 1984b, Table 24)

A similar check on the rate of growth occurred in Ontario's provincial-plus-local government cultural expenditure. Starting at \$84.6 million (constant 1971 dollars) in 1970-1, annual expenditure grew steadily to \$103.5 million in 1974-5. By 1980-1 expenditure was only 1.7 per cent higher at \$105.3 million (*ibid.*). Table 2 shows that there was an actual decline in Ontario provincial-plus-local expenditure per capita between 1974-5 and 1980-1 while the corresponding figure for Canada as a whole increased over this same period.

It will also be seen from Table 2 that the Ontario figure was ahead of that for Canada in all years. Ontario's lead, however, declined significantly. In 1970-1 the figure was 48 per cent higher than the Canadian one. By 1980-1 the lead had been cut to 15 per cent.

#### PERFORMING ARTS GROWTH

The data just examined refer to public expenditure on culture generally. When we examine that component of it called 'the performing arts' we observe a remarkable growth between 1971-81. Table 3 shows that between 1971 and 1981 the number of performing arts companies in Ontario also grew nearly ten times. The number of performances increased nearly eightfold while attendances tripled. In all cases the rate of growth in Ontario was significantly ahead of that in Canada even though expansion in the nation was also impressive. Ontario's share of the total population of course grew over this period, but this is only part

TABLE 1  
Ontario Arts Council commitments 1981-2

Area	Recipients	Total funding
Arts/Education	21 organizations; 7 special project organizations; 2 special project individuals; 188 creative artists in school community projects; 12 individuals in new play development	\$918,911
Community arts development	106 organizations	478,072
Dance	22 organizations; 26 choreography awards	876,402
Film/video and photography	26 organizations; 8 special projects 29 film makers (up to \$25,000) 30 film makers (up to \$10,000) 26 film makers (up to \$ 3,000) 12 photographers; 24 photo exhibition assistant grants; 12 video artists	804,766
Franco-Ontarian	42 organizations; 22 artists; 9 singers 5 film makers; 25 dramatic artists; 9 writers	587,155
Literature	13 organizations; 57 periodicals; 48 publishing houses; 436 writers (up to \$4,000); 2 special projects	1,765,908
Music	166 organizations; 59 commissions	3,210,765
Theatre	64 organizations; 107 playwrights; 6 playwrights' residences; 13 playreading programs/script development programs	2,672,806
Visual arts	32 galleries; 9 artist-run spaces 19 special projects; 4 service organizations; 6 schools and workshops; 2 art magazines; 6 art critics; 485 grants to individual artists (up to \$1,000); 54 individual project grants	1,425,714
Touring grants	Organizations	364,006
Touring arts fund	Touring sponsors in 128 communities	132,727
Student summer employment		177,394
Ministry of Northern Affairs	Several touring groups	103,383
TOTAL		\$13,518,009

SOURCE: Ontario Arts Council, *Annual Report*.

TABLE 2

Trends in provincial-plus-local cultural expenditure per capita (constant 1971 dollars)

	1970-1	71-2	72-3	73-4	74-5	75-6	76-7	77-8	78-9	79-80	80-1
Ontario	11.20	11.81	11.06	11.77	12.85	11.92	12.60	12.47	12.05	13.09	12.20
Canada	7.57	7.82	8.79	9.27	9.98	9.38	9.40	9.88	9.81	10.63	10.71

SOURCE: *Tri-Level Cultural Expenditure Data Base*, Canada Council, June 1984.

of the explanation for its superior rate of expansion in the performing arts. Attendances per hundred of the population grew from 17 to 44 between 1971 and 1981. This was a higher growth rate than that of Canada, which was from 18.4 to 40 per hundred over the same period.

The increase of reported occupations in the performing arts matches that of the output growth shown in Table 3. Between 1971-81 the number of musicians in Ontario grew by 174 per cent (Canada 166 per cent), dancers and choreographers by 283 per cent (Canada 271 per cent) and actors by 284 per cent (Canada 261 per cent). Growth in Canada exceeded that in Ontario only with respect to the number of producers and directors, although even here the difference was small (Ontario 206 per cent growth, Canada 211 per cent growth).<sup>2</sup>

About one half of the revenue of performing arts theatres in Canada comes from earnings (mainly ticket sales). Table 4 shows that, of the public donations in 1981, the shares of the federal, provincial and local governments in Canada were 54 per cent, 35 per cent and 11 per cent

TABLE 3

The growth of the performing arts in Ontario and Canada, 1971-81

	Ontario			Canada		
	1971	1981	% growth	1971	1981	% growth
No. of companies	8	76	950	40	210	525
Total no. of performances	1,218	9,482	778	5,975	27,040	285
Total attendance	1,269,000	3,790,000	299	3,918,000	9,686,000	247
Total expenses	8,978,000	60,515,000	674	22,557,000	129,313,000	573

SOURCE: Statistics Canada.

TABLE 4  
Performing arts funding received by source, 1981

	Federal	%	Provincial	%	Municipal	%
Ontario	\$14,326,355	64.0	\$ 5,292,593	23.5	\$2,912,592	12.9
Canada	27,140,100	54.0	17,328,828	35.0	5,772,026	11.0

SOURCE: Statistics Canada (1981) *Performing Arts* Cat. 87/524.

respectively. The table shows significantly different shares in Ontario where federal donations accounted for 64 per cent, provincial 23.5 per cent and municipal 12.9 per cent respectively. The relatively low share of provincial donations could simply mean that Ontario was being less generous than other provincial authorities, or that there was disproportionate generosity of federal support. The former view seems to be correct. Clear evidence of a downward trend in Ontario government support relative to provincial government aid generally is demonstrated by the fact that Ontario's allocation of subsidies to culture per capita fell in real terms by 5 per cent between 1971-81 compared with an impressive increase for Canadian provincial governments as a whole of 67 per cent (Canada Council 1984a, Table 4.10; 1982, 50). While these figures refer to subsidies to *culture*, it seems evident that the component called 'the performing arts' also suffered from the decline.

Private funding for the performing arts in 1981 was over \$16 million, accounting for approximately 25 per cent of total unearned revenue. Table 5 shows the breakdown of the various forms of private subsidy. The figures show that private subsidies constitute a significant source of funds for the arts. In particular, individual and corporate support provide the lion's share of private subsidies while foundations assume a much lesser role. It is, however, interesting to note that real government funding has fallen over the last ten years while real private support has increased.

#### LOTTERIES

In the 1950s and 1960s public support to the arts from provincial governments was conducted via arm's-length arts agencies (such as the Ontario Arts Council) that often looked to the policies of the Canada Council for leadership in their program initiatives. The mid-1970s saw the rise of provincial ministries of culture that were substantially financed by lottery revenues and these were being used in a variety of innovative arts supports programs.



TABLE 5  
Private grants to the performing arts, 1981

		Percentage
Total private subsidies	\$16,776,414	100
Individual	7,463,960	44.5
Corporate	5,894,720	35
Foundations	2,362,438	14
Not specified	286,669	2
Other grants	768,628	4.5

SOURCE: Statistics Canada.

The expansion of lotteries in Canada has been quite phenomenal. The growth has been the direct consequence of federal amendments to the Criminal Code that allowed federal and provincial governments to operate government lotteries as well as enabling the provinces to license privately operated lotteries. Gross receipts from privately operated lotteries increased from \$17.9 million in 1970-1 to \$482.9 million in 1979-80. By 1980, privately operated lotteries were more than twice as important a funding source for nonprofit organizations as corporate donations and more than a quarter as important as federal support to the nonprofit sector. (Canada Council 1982, 50)

In 1981-2 provincial government lottery support to the arts was estimated to be \$40 million. Of total provincial cultural expenditures in 1979, direct lottery support was at least 15 per cent. When we add federal and private lotteries, total direct lottery support to the arts was \$73 million in 1981-2.

One of the ways in which lotteries can provide support for the arts is through increasing government revenue. Such an increase strengthens the government potential for support to the arts through the regular programs of government departments and agencies. Lottery funds can also be used to assist in retiring the accumulated deficits of arts firms. This, in fact, has been the function of the so-called 'challenge grants' that are based on lottery funds. In addition, lottery funding can subsidize the demand side of arts activity through the use of rebates and other innovative programs such as 'Half-back' (see Chapter 10).

The most important lotteries in Ontario are Wintario, introduced in 1975, and Lottario, introduced in 1979. Both are administered under the Ontario Lottery Corporation Act of 1974. The net profits of the two lotteries have to be paid into the Consolidated Revenue Fund and are to be available 'for the promotion and development of physical fitness, sports, recreational and cultural activities and facilities.' Wintario programs are bound by somewhat more specifically expressed public goals.

There is no fixed percentage of the total lottery revenue allocated between recreation and culture. Since 1981 the funds have been channelled through two ministries – Citizenship and Culture, and Tourism and Recreation. Table 6 shows that the arts have received a little less from the lotteries than culture down to 1983. Recreation, however, has received much more than culture and arts combined.

One interesting feature of the Wintario lottery funds was that they have been administered largely in the form of 'matching grants'; the intention has been to supplement expenditures by private donors and municipalities. Generally, there has been a convention that lottery funding would not finance more than 50 per cent of capital or noncapital projects.

From Table 6 it will be seen that Wintario contributed about 10 times as much as Lottario to the arts by 1983. Of the total expenditures from Lottario of \$41.8 million expected in 1983-4 (capital and noncapital), it has been calculated that the arts will receive only \$1.4 million. Of that amount, \$1 million is expected to be devoted to capital arts projects and the remainder to arts programming.

By 1983, the two lotteries had devoted a total of \$41.7 million to capital arts projects. Some now say that it is time that a greater proportion of spending 'should be invested in programming existing facilities than in creating new ones' (Macauley Commission 1984, 10/15).

The noncapital arts support programs have a 'matching grant' feature. Wintario pays up to 50 per cent of the program costs for such things as travelling exhibitions, visiting arts programs, art acquisitions by community galleries, and conservation or restoration of public art works.

A good illustration of the financing of what appears to be a genuine public good (as mentioned in Chapter 1) is the Wintario program that was entitled 'Assistance for Art in Public Places'. One result of this program has been the development of 'street-level' art such as the Derek Besant mural on the Gooderham Building in Berczy Park in Toronto, and Michael Snow's sculpture entitled *Stop Flight* of Canada geese in the Eaton Centre.

The Wintario Challenge Fund has been intended to enable nonprofit organizations to achieve greater long-term stability. The focus has been on establishing investment funds. Donations to these are matched on a two-for-one basis. Thirty-five arts groups have qualified so far for the challenge program. These have included theatres, orchestras, and community art galleries. By the end of 1982-3 they had raised \$9.25 million, a figure that was matched twofold by Wintario.

Whatever the pros and cons of lotteries, it is clear that their growth has been a fact of life and that their current influence in the arts world is

TABLE 6

Wintario and Lottario capital and program support for recreation, culture, the arts and other projects, from their inception to 31 March 1983 (in current dollars)

	Wintario		Lottario		Combined	
	\$(millions)	%	\$(millions)	%	\$(millions)	%
Recreation <sup>a</sup>	253.7	62	4.1	7	257.8	55
Culture <sup>b</sup>	66.7	16	26.3	45	93.0	20
Arts <sup>c</sup>	70.4	17	7.4	13	77.8	17
Other <sup>d</sup>	—	—	20.5	35	20.5	4
Administration	19.2	5	—	—	19.2	4
TOTAL	410.0	100	58.3	100	468.3	100
Reserve <sup>e</sup>	36.8					

<sup>a</sup> Amateur sport and physical fitness.

<sup>b</sup> Heritage, libraries, museums, citizenship, BRIO, TV Ontario, Ontario Science Centre, Sudbury Science Centre, Royal Ontario Museum, Jewish Community Centre.

<sup>c</sup> All capital and support programs of Wintario, plus the Elgin/Wintergarden, Roy Thomson Hall, International Music Festival, and Toronto Symphony tour from Lottario.

<sup>d</sup> Ottawa Capital Congress Centre and Metropolitan Toronto Convention Centre.

<sup>e</sup> Required to meet existing commitments and 1983-4 administration.

SOURCE: Grants Management Branch, Ministry of Citizenship and Culture, January 1981.

now quite significant if not impressive. Indeed, direct lottery support to the arts in 1981-2 was almost one-and-a-half times the budget of the Canada Council. There appears to be no reluctance in principle in the arts world to receiving funds from this new financial source. The only point of contention, as we shall see, is on how the money should be allocated.

## CONCLUSION

This concludes our brief description of the growth, finance and organization of the performing arts in Ontario. Governments at all three levels have clearly played a significant role. Their subsidies, meanwhile, have usually been directed through arm's-length agencies to the major deliverers of the arts activities, namely the nonprofit arts firms. We shall now examine the latter institutions, taking an analytic rather than a descriptive approach. Accordingly, the economics of the performing arts firms is the subject of our next chapter.

## NOTES

1 Report of the Special Committee for the Arts, Volume I, Spring 1984.

2 All figures quoted in this paragraph were taken from: Statistics Canada (1981) *Census of Population*, Cat 92-920, Volume 1, Table 1.

## 4

# The economic structure of supply: the performing arts firm

### INTRODUCTION

This chapter will present a brief analysis of the nature of output, short-run and long-run production-cost functions, organizational structure and the effects of subsidies on output across different types of performing arts firms. Organizational structure will receive particular scrutiny and the focus of attention here will be upon the distinction between 'profit seeking' and 'nonprofit seeking' enterprises in the arts,<sup>1</sup> bearing in mind that the nonprofit institution has now become the predominant organizational form. (Hansmann 1981) Furthermore, whereas ticket sales comprise all, or nearly all, of the earnings of the 'commercial' (profit-seeking) firms, the more typical 'nonprofit' arts producers supply an output that would not be possible on the basis of earned revenue alone. In the words, for instance, of Throsby and Withers: 'To a greater or less degree they [the nonprofit arts firms] depend on philanthropy from federal, state or local governments, [and] corporations.' (1983, 14)

We shall argue that (a) the need for the emphasis on a distinction between nonprofit and profit maximizing arts firms is in fact not as obvious as has been suggested in the literature; (b) that in the arts context the term 'philanthropy' is ambiguous and that this is true of other words that are similar in intention – words such as 'donations', 'gifts', 'support', or 'patronage'; and (c) that the findings in (a) and (b) have serious policy implications.

### OUTPUT

The measure of performing arts output to be used in this book is simply the number of performances given. Other analysts sometimes prefer a measure that is based on the number of tickets sold. Our own preference for the number of performances is based on the observation that the



attempt to link up output with audience demand does not strictly differentiate production from consumption.<sup>2</sup>

#### PRODUCTION AND COST FUNCTIONS

As in the conventional theory of the firm, production of performing arts entertainment varies according to the length of the run being considered. In economic theory the short run is defined as a situation where at least one of the factors is fixed. In the case of the performing arts, fixed factors in the short run include rehearsal investment, sets, designs and costumes, all in addition, of course, to theatre buildings. Factors that vary with short-run output (in the sense of the number of performances) would include the services of actors, musicians and technical staff. Production in the short run therefore would be a function of the input of such variable factors. As is conventionally the case, output will increase with inputs but ultimately at a diminishing rate. This production function implies a corresponding cost function such that marginal cost eventually increases with output.

Economic theory describes the long run as a period in which all factors are variable. In our case this means a period within which the firm can offer a variety of productions and where facilities can be freely expanded or contracted. A typical long-run period embraces a production 'season' such as that offered at the Stratford Festival in Canada or at the Glyndebourne Opera in England. The long-run production function will typically reveal increasing returns to scale when the number of productions are expanded. It will also reflect the substitution possibilities between capital and labour. The cost functions implied in such long-run production functions would, of course, appropriately reflect any economies of scale. One might expect, for instance, that the increasing size of theatre capacity would be a major source of decreasing unit costs in the long run. However, increasing factor prices, especially of labour, could be an offsetting influence.

Using cross-section data based on questionnaire responses, together with information on grant applications from thirty-three Canadian orchestras in 1971-2, Globerman and Book (1974) found that the scale economies in symphony orchestra production were quite pronounced. The minimum cost of services occurred at 115 performances per season. Globerman and Book's finding appears to be compatible with the earlier work of Baumol and Bowen (1966).

## MARKET STRUCTURE

The last observation has a bearing on the question of where to locate the typical performing arts organization within the spectrum of market structures that range from perfect competition at one end to complete monopoly at the other. Pronounced economies of scale and large fixed costs would suggest strong monopoly elements. Hansmann (1981) argues, in fact, that because of these considerations, in practice monopoly is typical in the performing arts. Even New York City, he observes, supports only one major symphony orchestra, two substantial opera companies, and a handful of dance groups. This same approximate situation is to be found also in Toronto. The only room for debate, therefore, would seem to concern the question of the degrees of 'severity' of the monopoly elements.

The market structure of perfect competition requires homogeneous products and services. The production of artistic services obviously does not fit this market definition since each artist or performance aims to be unique. At the same time freedom of entry characterizes many parts of the performing arts industry and especially drama production. This combination of circumstances, therefore, predicts that 'monopolistic competition' will be the relevant market structure in many, if not most, instances. This being so, the appropriate model would probably be one of spatial competition in which firms maximize market area. In this situation the firms will face downward sloping demand curves, but free entry will ensure that profits tend towards zero. In contrast, where pure monopoly prevails and firms also face downward sloping demand curves, there will be no tendency to reduce profits to zero (at least in the case of the proprietary firm).

## ORGANIZATIONAL STRUCTURE

We must distinguish next between profit-making and nonprofit-making enterprises. In the past, profit-seeking institutions appear to have predominated, even among symphony orchestras. Today the vast majority of performing arts firms have become nonprofit organizations. The literature has only just begun to attempt to analyse the factors that have caused this change. The central distinguishing mark of the nonprofit organization is that it is barred from distributing its net earnings, if there are any, to those who control it, including directors, trustees or other officers. Profits, in the form of net earnings, may actually be earned but they must be kept in the business to help further the stated objectives of the organization.

Among the several factors that might help to explain why the nonprofit organization appears in some areas of activity (like the performing arts) but not in others, Hansmann (1980) suggests that it is best adapted to those situations where consumers are incapable of accurately evaluating the goods promised or delivered. As a result consumers will not easily find the best bargain or enforce it once made. The consumer will find it better to deal with a nonprofit producer. The latter will not have the incentive to take advantage of him since those in charge are barred from taking home any resulting profits. In general, Hansmann believes that, in the types of situations described, the individual needs an organization he can trust, 'and the nonprofit, because of the legal constraints under which it must operate, is likely to serve that function better than its for-profit counterpart' (ibid., 847).

Such argument neglects the fact that the market has produced a host of attempts to solve this 'principal-agent' problem. Where consumers wish to purchase goods or services that have complex characteristics, they generate market demands for professional advice or guidance. The buyer of a house, for instance, usually seeks out a realtor and/or a surveyor, the purchaser of precious metals an assayer, and so on. In the field of the performing arts, it is mainly the professional critic who fulfils this role of agent. This is not to say that agents always act with 'perfect' efficiency. The point is that, since there are available a variety of agents who can provide advice on the services of for-profit enterprises in the arts, the 'imperfection' of this arrangement must be proved greater than that associated with exclusive reliance on a nonprofit enterprise before one can demonstrate the latter's overall superiority.

The argument in favour of nonprofit organization also appears to involve an inconsistency in economic theory. Thus, instead of the economist's presumption of self-interested behaviour among all individuals, Hansmann's reasoning assumes that some individuals – those employed in nonprofit organizations – can be trusted, while others – those occupied in profit-seeking institutions – cannot. The conventional economist will persist with his or her assumption of *universal* self-interest and will look for appropriate changes in personal behaviour when an organization changes from profit to nonprofit status. He or she will predict, for instance, that officers in a firm that changes over to nonprofit status will still be able to enjoy much of the net revenue ('profit') that is generated. Ways of doing this include inflating salaries or the consuming nonpecuniary benefits on the job. Such stratagems are possible because although the law forbids formal distribution of dividends it is not likely to monitor very closely the firm's reporting of its expenses. But with the consumption by officers of nonpecuniary benefits,

costs will increase and the firm will reduce its efficiency. Hansmann himself concedes that 'nonprofit firms might be expected to be slower in meeting increased demand and to be less efficient in their use of inputs than for-profit firms' (ibid., 844).

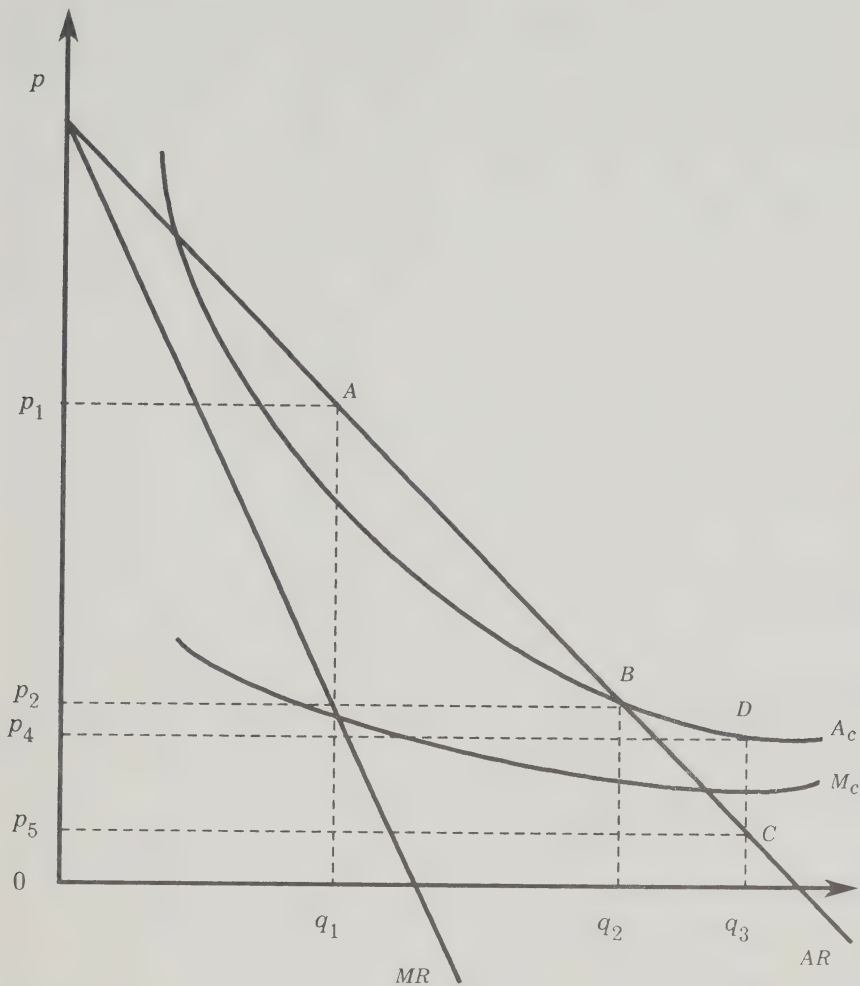
Even if the argument that something like 'trust' can be successfully invoked to explain why nonprofit institutions are sometimes superior, it is not obvious why it can also explain the significant *increase* recently in the number of nonprofit organizations (relative to for-profit organizations) in the performing arts. To do so, evidence would have to be produced showing that there has recently been a marked increase in the demand for 'trust'. A more promising line of enquiry, on the other hand, would appear to be one that focused on the increased rewards that have accompanied the change in organization. With the relatively new propensity of governments to provide subsidies to performing arts organizations has come the administrative condition that such grants can be enjoyed only by nonprofit organizations. The Chairman of the National Endowment for the Arts in the United States reported in 1984 that 'while our concern extends to all the arts, both commercial and not-for-profit, our grant making is targeted exclusively to the nonprofit arts world' (Hodsoll 1984, 5). A similar situation of course prevails in Canada. But what policy makers never make explicit are the official reasons why nonprofit institutions have been so favoured.<sup>3</sup>

Throsby and Withers (1979) contend that nonprofit firms produce at a lower price and at a higher output level than profit-maximizing firms that are monopolies. This line of reasoning might suggest that, following a given subsidy, the *increase* in output would be greater in nonprofit than in profit firms. And if the social objective is to expand cultural experiences, then subsidies are most efficiently spent when the recipient firms increase their output most. We believe, however, that there is some complexity beneath the surface of this argument. Accordingly, it will be necessary to examine the Throsby and Withers model in a little more detail.

Consider Figure 1, which is similar to Figure 2.1 in the 1979 volume by Throsby and Withers (hereafter T/W). This diagram represents the monopoly market structure and relates to the long run in which, as explained above, all factors are variable and substitutable. The profit maximizer's optimum strategy is to produce quantity  $q_1$  where marginal cost ( $M_c$ ) is equal to marginal revenue ( $MR$ ). Correspondingly, he will charge a price of  $p_1$ . Positive profits will be earned at this output since the price (= average revenue =  $AR$ ) is greater than the average cost ( $A_c$ ). The manager of the nonprofit firm, in contrast, being legally forbidden to distribute profits, will expand output to  $q_2$ . This is feasible



FIGURE 1  
 The nonprofit firm's decision strategy



because at this point total (average) cost is just equal to total (average) revenue. The economic constraint that costs should not exceed revenues will prevent the manager from expanding audience attendance beyond  $q_2$ .

T/W conclude from such analysis that 'in the long run, the model suggests . . . that in most circumstances the firm will set lower prices and

achieve higher output levels than would a profit maximizing enterprise' (p. 21). Notice that this argument is not claiming that the nonprofit firm will produce an output that is socially optimal. To do this it would have to produce more than  $q_2$  and at a level corresponding to the point where  $M_c$  intersects with  $AR$ . (The argument for public subsidy incentives to ensure this latter output will be addressed below.) All that is being proposed by T/W is that the nonprofit firm will produce more than the for-profit firm (and at a lower price). It is this proposal exclusively that is being examined here.

Consider first that, if the average and marginal costs shown in the diagram represent the commercial or profit-maximizing case, then we can assume that they are minimum costs. This follows because the behavioural assumptions involved in this case imply that suppliers will face continual incentives to search for the lowest possible cost structures at all times. Consider next the cost curves of the nonprofit firm. Such an enterprise is run by managers who can be presumed to maximize an objective defined in terms both of output and a discretionary budget (the difference between the total budget and the minimum cost of producing output). The discretionary budget can be enjoyed by the manager in terms of, for instance, nonpecuniary benefits stemming from greater leisure on the job (compared with the for-profit manager) or from extra staff, a pleasant working environment and so on. Pecuniary benefits may also be obtained by way of inflated salaries. All these considerations imply that the nonprofit firm's  $A_c$  and  $M_c$  curves are likely to be higher than those reported for the profit maximizer in Figure 1. Since this is the case, T/W's conclusion that the nonprofit firm will inevitably set lower prices and a higher output than a profit-maximizing firm needs some qualification. It is quite possible, for instance, that the average cost curve facing the nonprofit manager could be so much higher than  $A_c$  (in Figure 1) that its intersection with the  $AR$  curve, corresponding to the present point  $B$ , could be at point  $A$ . In this case the profit maximizing firm would have the same price and same output as the nonprofit firm.

The T/W model, moreover, represents a single price situation, or a simple monopoly model. A monopolist who practised price discrimination (charging several prices, e.g., across different types of customer), would produce a quantity greater than  $q_1$ . In the extreme case of perfect price discrimination (and neglecting income effects), the profit-maximizing monopolist would indeed produce the socially optimum level (to the right of  $q_2$  where  $M_c$  intersects  $AR$ ). It is possible, of course, for the nonprofit enterprise also to reach higher production via perfect price discrimination. But insofar as its average and marginal costs are higher

than the for-profit firm's, it will not be able to reach the 'true' socially optimal output.

Recent empirical work by Seaman (1984b) reveals that ticket price discrimination is in fact practised to a considerable degree in the performing arts. Moreover, his evidence also shows that a greater degree of price discrimination occurs the more important are the fixed costs. Thus opera companies price-discriminate the most and theatre companies the least. Seaman's examples of price discrimination relate to nonprofit firms. However, many of the discrimination instruments also could have been used by for-profit institutions. Whether or not some price discrimination tools are peculiar to nonprofit enterprises will be examined below.

#### CHOICE OF SUBSIDY ALLOCATION

So far, the analysis surrounding Figure 1 has assumed that neither the profit nor the nonprofit firm has been receiving a government subsidy. The issue of optimal intervention is addressed next. We return then to the general question of whether it is in the public interest always to prefer nonprofit over for-profit firms for per-unit subsidy purposes. T/W insist that the granting of *lump sum* subsidies to profit-maximizing firms is certainly questionable, for they merely add to profits. There are also serious disadvantages, however, in directing lump sum subsidies to the nonprofit firms and these seem to have been ignored by T/W.

Assume that the cost curves in Figure 1 are as reported by the managers of a nonprofit firm. Suppose next that a lump sum subsidy is designed to allow the firm to produce nearer its full capacity, at  $q_3$  for instance.<sup>4</sup> The value of the subsidy would be  $p_4DCp_5$ . This would correspond to the lower average cost at  $D$  multiplied by the new demand  $q_3$  less the aggregate ticket revenues at the new price  $p_5$ . Such analysis, however, contains the implicit assumption of zero interdependence between the granting of the subsidy and the reported costs. Yet there is no proof of such interdependence. We cannot be sure, for instance, that the managers in such a situation would not be given the incentive to build (or rent) bigger theatres and therefore inflate costs so as to secure a larger subsidy. Such interdependence between costs and lump sum grants is an important consideration since, as T/W point out, and as we saw in Chapter 2, the lump sum is the most common method in which subsidies are paid in the real world.

Lump sum subsidies to both for-profit and nonprofit firms are thus equally questionable. If, on the other hand, public money was distributed as a per-unit subsidy it would in effect lower average and marginal costs for both firms. Since the equality of marginal cost and

marginal revenue could then be further to the right, the consequence for the for-profit firm would be a move down the demand curve leading to a lower price and larger output. The direction of this effect will also be the same for the nonprofit firm. But since, as we have seen, there is a presumption that the nonprofit firm's average cost curve will be higher than that of the profit maximizing firm, there is no presumption for favouring the former organization over the latter.

Alternatively subsidies could be allocated to consumers (e.g., via vouchers). The result here would be a rightward shift of the demand curve and a drop in ticket prices to the attender. Again there is no presumption in favour of the nonprofit over the profit firm or vice versa. The voucher has the added feature that it would promote more 'consumer sovereignty'. Further efficiency-promoting aspects of the cultural voucher will be discussed in Chapter 7. Meanwhile, we can conclude that, of all methods, and provided there are no offsetting administrative cost advantages, the lump sum subsidy – the form that is most common in practice – is the least efficient. Evidence concerning administrative costs will be presented in Chapter 7.

It should be emphasized that the discussion of the T/W argument based on Figure 1 has concerned the market structure of monopoly. We stated earlier that perhaps the most typical market condition is that of monopolistic competition. In this case long-run equilibrium is also characterized by falling AC and AR curves. Profits, however, are competed down to zero by new entrants (as would be shown by the eventual tangency of the two curves). If government policy is to attempt to expand arts output by a subsidy policy this would always be achieved in the case of the profit-maximizing firms in monopolistic competition. This would be so even if lump-sum subsidies were employed, because the subsidies, by temporarily increasing profits, would attract new entrants. The interesting question now arises whether the increase in output would be of a different magnitude in the case of nonprofit firms under conditions of monopolistic competition. This market structure, to repeat, allows free entry. If nonprofit firms were less efficient and in the absence of government subsidies, the entry, or potential entry, of profit-making firms would imply such competition as to cause the former either to increase efficiency or go out of business. Eventually, costs would be the same for profit and nonprofit firms. If, on the other hand, government subsidies were available, but only to nonprofit firms, then most (or many) for-profit enterprises would be encouraged to change their legal status to nonprofit organizations. Nonetheless, free entry would still provide the competitive pressure to keep costs down.



Whatever the type of subsidy decided upon, we have yet to determine the appropriate target output level. If we assume a costless tax system, traditional welfare economics, which takes a given demand curve as an unquestionable datum, would call for subsidies that ensure the social optimum. As previously mentioned, this optimum is to be found where  $M_c$  intersects  $AR$ . This would call for a subsidy to ensure an output of somewhere between  $q_2$  and  $q_3$ .

It is not true, however, that the tax system is costless. Since lump sum taxes are not feasible, we have to resort to imperfect alternatives which include income and commodity taxes. Campbell (1975) estimated that the marginal excess burden (cost) of Canadian commodity taxes is about 24 cents per dollar of revenue. Subsequent general equilibrium computations of the excess marginal welfare costs of taxes as a whole in the United States have found that the welfare loss from a 1 per cent increase in all distortionary tax rates is between 17 and 56 cents per dollar of extra revenue (Ballard et. al 1985). Such findings indicate that, in our context, subsidies to encourage the 'social optimal' output as defined above (between  $q_2$  and  $q_3$ ) would be excessive. In other words, some smaller target output level would have to be selected as the social optimum.

It must be recalled, however, that in the case of the arts, not all economists are willing to place themselves within the confines of conventional welfare economics. Where they adopt a merit-good approach (which is outside traditional welfare analysis), they will insist that the  $AR$  curve of Figure 1 underestimates the true long-run social demand. They argue that this curve represents existing individual tastes and that it is more fitting to weight reported demand upwards to reflect some leadership expression of influence. That influence, it is maintained, will result in a continuous improvement in the public's taste and a consequent continuous rightward shift of each demand curve ( $AR$ ).

#### PRIVATE DONATIONS AND THE NONPROFIT FIRM

Most nonprofit performing arts groups depend upon donations for a significant proportion of their income. Of totals received in 1981 by the arts in Canada, 17.5 per cent came from private sources (Council for Business and the Arts in Canada 1983). Donations come from private foundations, corporations and individuals. Table 7 presents the breakdown of these categories between 1975-81.

Attempted explanations for the prevalence of donations are more frequent in the United States, where the phenomenon of private giving is much more pronounced. It has been reported there that nonprofit performing arts groups depend upon private donations for between one-

TABLE 7

Private grants to the arts, 1975-81 (in constant 1971 dollars)

	1975	1976	1977	1979	1981
Total private	3,582,782	3,928,139	4,999,718	5,404,618	7,187,838
Individual	962,614 (27%)	972,692 (25%)	1,283,378 (26%)	1,719,968 (32%)	3,197,926 (445%)
Corporate	1,342,758 (37%)	1,589,840 (405%)	1,931,000 (39%)	1,567,339 (29%)	2,515,743 (35%)
Foundations	598,117 (17%)	491,213 (12%)	600,199 (12%)	977,480 (18%)	101,218 (14%)
Not specified	679,293 (19%)	153,436 (5%)	56,428 (1%)	277,288 (4%)	122,823 (2%)
Other grants	—	687,288 (175%)	1,114,726 (22%)	866,606 (16%)	329,318 (45%)

SOURCE: Statistics Canada Cats. no. 11-206, 13-201.

third and one-half of their income (Baumol and Bowen 1966). One hypothesis is that private donations support the private production of public goods (Hansmann 1980). Similarly, it has often been argued that one purpose of private subsidies is to internalize external benefits (*ibid.*, ch. 16; Netzer 1978). A frequently quoted example of such external benefits is the postulated prestige and therefore tourism that cultural institutions bring to cities. There are several weaknesses of this particular argument that will be discussed in Chapter 5 when we come to the general topic of the economic impact of the arts. Meanwhile, reasoning on externalities does not satisfactorily explain the significant proportion of donations to arts groups from people who actually attend the groups' performances, as distinct from nonusers who, presumably, enjoy only the prestige and other external benefits. In the United States, 40 per cent of surveyed audiences donate to the performing arts. (Baumol and Bowen 1966, 307-8). As we shall show in Chapter 7, our own audience survey of 1983 suggests the equivalent proportion in Ontario to be 30 per cent.

#### PRICE DISCRIMINATION

Henry Hansmann (1981, 344) has argued that since the typical nonprofit performing arts organization has a much smaller attendance than the profit-seeking institution, the ratio of its fixed to variable costs is relatively high. This means that it is less able to spread its fixed costs of

production over a large audience. Because 'hit' Broadway shows, for example, typically run for several hundred performances, substantial price discrimination, Hansmann argues, is not necessary for survival. The typical nonprofit firm, in contrast, has to resort to price discrimination to ensure that total revenues cover total costs. The expected situation is one where, unlike that shown in Figure 1, the AC curve lies above the AR (demand) curve at all points. In this case whether the price was  $p_1$ ,  $p_2$  or any other price corresponding to points along the demand curve, total receipts would fall short of total costs. Indeed, there is no *single* ticket price that will produce total revenues equal to, or above, total costs. The only hope therefore is to attempt to set several prices (i.e., to charge different prices to different classes of audience membership).

The perfect price discriminator could set many different prices so as to obtain a total revenue that was equal to the area under the demand curve (AR). The average nonprofit firm has to settle for something less than this possibility, but still does its best to set as many different ticket prices as possible. In Ontario the practice appears to be conducted with considerable imagination. Thus different prices are charged for different seats, different nights, different classes of customers, different times of purchase, and different quantities of purchase (Book 1977, 17).

One can agree, therefore, with Hansmann's prediction that nonprofit firms will adopt the practice of price discrimination. Yet it is not so clear why we should also accept the apparent suggestion that for-profit theatres will price-discriminate less than others. It may frequently be true that in the for-profit cases, price discrimination 'is not necessary for survival,' to use Hansmann's words. However, the profit seeker will have incentives to go well beyond survival. Insofar as there are increased profits in price discrimination, he will surely practice it at all possible times.

Price discrimination is most effective with those patrons whose demand is most inelastic and who also have the strongest relative preference for good seats over bad seats (Hansmann 1981, 343). The price discriminator can then channel those with inelastic demands into the good seats at high prices. Hansmann emphasizes, however, that discrimination is limited by the accident or incidence of this pattern of demand preference. Obviously, this is an empirical matter. Meanwhile, the widespread success of price discrimination seems to suggest that demand structures of the special sort just mentioned are in fact quite common.

Believing nevertheless that the possibilities for conventional price discrimination are limited, Hansmann offers the interesting suggestion that it is still possible 'to ask individuals simply to *volunteer* to pay an

additional amount if the value they place upon attendance exceeds the price charged for admission' (ibid., 344). Indeed, he considers that this is the approach that is actually taken by nonprofit performing arts organizations. Among other things, this approach helps to explain why nonprofit organizations price their tickets below the level that maximizes total admission receipts; any increase in ticket prices would lead to a decrease in donations, and 'the total reservoir of consumer surplus from which those donations derive will decrease' (ibid., 345). Consequently, the way to obtain the highest total revenue is to set ticket prices at lower levels than those that would maximize admission revenue. Insofar as Hansmann's analysis is correct, it would probably imply a comparative advantage of the nonprofit enterprise over the for-profit undertaking, for it is difficult to envisage voluntary price discrimination working in the latter establishments.

#### AMBIGUOUS DONATIONS

A more interesting aspect of Hansmann's analysis is the emergence of the idea that, to the extent that the private donation is in reality a method of paying for services received by the 'donor', the word 'donation' becomes a misnomer. What is involved is not a gift but an exchange. This is one of the reasons why such terms as 'philanthropy', 'support' and 'charitable giving', which are terms commonly used to describe funding in the performing arts, were described earlier in this chapter as being potentially ambiguous.

Another reason for questioning the universal appropriateness of the terms 'philanthropy', 'donation' and 'support' can now be discussed. Consider those finances that are directed to the arts by corporations. It can be argued that such funds are intended primarily for the promotion of the corporations rather than for the 'support' of the arts. This point appears to have been acknowledged with unusual candour by Celia Davies, Community Relations Manager for Norcen Energy Resources Limited, who told a Toronto Symposium on the Arts in 1983: 'A corporation is not a philanthropic organization. We are dealing with the shareholder's money' (Macauley Commission 1984, 11/15). But as we shall see, there is nothing necessarily detrimental to the theatre in this situation. The corporation and the arts can enjoy mutual benefits from partnership.

The interest in the arts by business organizations may not, in fact, be difficult to explain. Sarah Iley of the Council for Business and the Arts in Canada (CBAC) argues that corporations see their donations 'as investments, to improve company image, to enhance the work environment, to publicize a service' (see Allemang 1982). Corporations, indeed, often



view the arts as an important business partner. Thus, it appears to have been good business for Metropolitan Life of Ottawa to develop a reputation associated with physical excellence through its sponsoring of a ballet production in the Ottawa National Arts Centre Festival. Among other things, the project generated nonpecuniary benefits for the employers: 'The community benefited from the high-calibre performances; employees not only were invited to watch rehearsals of an Ottawa dance company, but were offered dance classes as well' (ibid., 34).

In general, corporations are discovering the arts as an avenue for marketing a product as well as developing a positive image. Labatts Breweries, for instance, took the opportunity of the Toronto Film Festival (Festival of Festivals) 'as an opportunity to reach a young, outgoing audience' (ibid., 34-5). Another example is American Express, which, in taking out more than half a million dollars worth of advertisements to publicize its marketing of charge cards and travellers' cheques, declared that a percentage of the sales and new memberships was to be allocated to the National Ballet School, National Theatre School and National Youth Orchestra.

In general, as a vehicle for advertising and promoting goodwill, the arts appear to be seen by more and more companies as 'cheaper than sports, higher profile than education and more upbeat than health and welfare' (Iley 1982, 14).

#### JOINT SUPPLY

The partnerships illustrated above can best be conceptualized in terms of what economists call the 'joint supply' situation. This is a system of multiple and yet integrated markets. The classic case in economics is that of the steer which provides two products jointly: meat and hides. Technically, the way to determine the price of the hides is to start with the market price of the whole steer and then deduct the revenue gained from the sale of meat. Similarly, the price of meat would be the market price of the whole steer minus the proceeds from the sales of hides. Applying this reasoning to arts provision in the absence of government subsidy, the price of theatre tickets to consumers becomes the cost of the whole theatre production minus what can be obtained from the purchase (through the arts media) of advertising and goodwill by business corporations. Similarly, the price of the latter would be the total cost of the theatre production minus earned income from ticket sales. If we now allow for government subsidies and assume that these are purchasing in external benefits in the 'market' for citizens generally, then the phenomenon of joint supply extends to three classes of markets.

It is for this reason that it may be misleading to focus on what specialists in cultural economics call the 'income gap' in the performing arts. The income gap is described as measuring the amount of 'outside support' a company needs in order to produce and present live performing arts; it represents the difference between the costs of putting on live performances and the direct earnings of those performances. In the model outlined above, which we may concede to be probably an 'extreme case', there is strictly no income gap. There are joint and interdependent markets for services, each of which generates sufficient income to cover its costs. The Baumol-Bowen hypothesis predicted that the income gap (defined above) in the performing arts would always be increasing because of the difficulty of productivity improvements in the arts. The interpretation of the data in terms of our joint supply model, however, reveals a particular problem with that thesis: if there is more than one market involved, changing technologies and demands in one of them can have unexpected effects on the other.

The motives for individual or family donations to the arts are more complex, but often this kind of phenomenon can also be interpreted in terms of the joint supply model. The Friedmans (1980, 1978) have given the example of an individual, Mrs X, who wants to honour her husband, Mr X. She would not regard it as much of an honour to have the ABC manufacturing enterprise name a newly built factory for him. In contrast, if Mrs X finances a library or other building for Mr X at a university, or a named professorship or a scholarship, 'that will be regarded as a real tribute to Mr X. It will be so regarded precisely because it renders a public service.' Applied to our subject it would similarly be regarded as a real tribute to her husband if Mrs X financed a theatre, part of a theatre, an annual concert, or an arts scholarship. And it would be regarded as a real tribute precisely because it renders a public service. In this case, public external benefits are being generated by the actions of individuals like Mrs X. In our case the consumers would be internalizing such externalities free of charge. Yet another way of viewing the situation is that an annual concert subsidized by Mrs X is generating utility to her as well as to the arts audiences in such a way that joint markets are again involved. Nevertheless, such reasoning should not be pushed so far as to exclude altogether the possibility of *any* element of 'genuine' philanthropic motive. Mrs X could have a mixture of goals.

Public agencies are wary of any change in the balance between public and private finance of the arts. The Report to the Ontario Minister of Citizenship and Culture in 1984 declared: 'We feel that a major shift in funding responsibility away from government support and toward

increased private support would be a retrograde step for the arts and for the Province' (Macauley Commission 1984, 11/4). One stated objection is that with increased reliance on corporate funding the nature of the artistic service supplied undergoes a change. Corporate donors shy away from the experimental or the controversial and concentrate their funds on large and established companies with a safe repertoire. It is not clear, however, that a marginal switch from public to private would always effect such a large change in Canada at present, since the Canada Council has admitted that it too is focusing its support on organizations that have achieved 'stature' as distinct from those who are developing fresh ideas (Canada Council 1979-80, 5).

One of the advantages of corporate funding is the increased efficiency that it stimulates within arts organization management. Corporate donors usually want to see evidence of good box-office prospects and good business management before they donate. Arts organizations with deficits thus find it difficult to obtain corporate backing (Macauley Commission 1984, 11/17). A second potential advantage is that a marginal reduction of public subsidies could be accompanied by a fall in taxation and its attendant disincentives. A third advantage is the reduction of the special costs associated with public bureaucracies. A fourth advantage, to be explored in subsequent chapters, is the reduction of inequity in the tax system that provides art subsidies.

#### CROWDING OUT

So far we have given illustrations of cases where what is commonly described as philanthropy are in fact instances of an exchange relationship. This is not to argue that there are no cases at all of genuine giving. Clearly, it is an empirical matter to what degree the latter activity is contained in the total reported instances of 'philanthropy'.

Suppose most private and public cases of philanthropy are 'genuine'. Then the giving by donor A would be a substitute for, or competitive with, the giving by donor B. Giving is usually a positive function of the impecunious position of the donee. The more that B gives to a recipient, the less impecunious he is and the less likely is donor A to donate. He or she will then presumably look for other competing worthy causes. Similarly, if A is already donating to X, and B then enters the scene with handsome donations to the same recipient, donor A is likely to consider marginal shifts of his or her giving away from X and towards Y or Z. This would be one example of what economists call 'crowding out'.

A test of the degree of genuine giving that is contained in reported instances of 'philanthropy' by prominent donors would accordingly consist of repeated examinations of the reaction by one donor to the



'incursions' of another. Let us denote one major donor as 'private donation' and the other as 'public donation' where 'private' includes giving by foundations, corporations and individuals and 'public' includes all levels of government. The more repeated instances we find where an increase of public leads to a decrease of private 'donation', the greater the basis for believing that the two activities are substitutes and therefore involve cases of 'genuine' giving. Such would be an instance of the crowding out of private by public donors. Where, in contrast, the data does not support the crowding-out hypothesis, there is less support for the belief that the donations from the two sources are substitutes (and for the associated implication that genuine giving is involved).

Two studies of crowding out in arts donations have so far been done in the United States, although the authors have not connected the issue with our discriminant model of gifts versus exchanges. From data examined for the period 1965-74, Netzer found there was no evidence of crowding out between public and private donors (1978, 102). Similarly, Seaman (1980) concluded from a careful econometric analysis that the crowding out of private contributions by increased government subsidies has been relatively insignificant in the United States. Both these findings are consistent with the view that, on average, public and private donations are not substitutes. This in turn suggests that the typical 'donation' is a payment for services rendered rather than a genuine gift that helps to fill an 'income gap'.

Consider next some further aspects of the empirical literature. We have already observed that Throsby and Withers (1979) treat all donations as 'philanthropy'. This is also treated in some cases in terms of somewhat unexpected (though welcome) gifts by the recipients. Decisions on output are made and, sequentially, it is hoped that emerging income gaps will be filled by donations. Thus, Bruce Seaman (1980) visualizes a situation in the United States wherein 'managers set spending targets for the year based on artistic and attendance goals and *then* embark upon fund-raising efforts to generate target income' (emphasis added). In Canada, however, it is highly probable that much of the support that is channelled through the public agencies and private corporations is long-term and planned far in advance. Similarly, 'donations' by the public to many arts or cultural groups can be forecast, with some accuracy, well ahead of the actual giving. A private donor, moreover, knows more or less how government contributes to the performing arts group that he wants to support, and government is keenly aware of the private-sector support for worthy artistic causes. All parties, in other words, can estimate fairly closely and well in advance what will be given



and received and by whom. Furthermore, 'donation' commitments are secured *in advance* of production, as are other forms of investment.

It will be helpful to undertake our own empirical study in the context of the question whether 'donation' typically reflects a 'giving' or an 'exchange' relationship. Consider then the hypothesis that 'exchange' is the dominant relationship. It is consistent with this view that each donor has his own particular objective function to maximize. With respect to the corporation, this might, for example, be seen in terms of advertising. Similarly, the public agency might wish to advertise in the sense of endeavouring to maximize the goodwill (and therefore political support) of the agency itself. Without attempting to delineate fully what the objective function really is in each case, we simply postulate that for each \$1,000 donated to a given quality production, the public or private donor is interested in communicating with as many attenders as possible. It would be better, for instance, if the \$1,000 donation were to serve 1,000 rather than 500 spectators. Thus, a donation of \$1 per spectator will be preferred to one of \$2 per spectator. Monitoring statistics of this 'dollars per spectator' kind therefore will be a means of achieving efficiency in the desired exchange relationship. Meanwhile, since each donor is postulated to have a separate objective function, there is no basis for assuming that the donations will be substitutes.

Actual evidence in terms of 'dollars per spectator' is taken from the Canada Council Performing Arts Data Base. Table 8 shows the information broken down by size of companies. The remainder of the data (not shown) is classified by discipline. The disciplines are dance, music, opera and theatre. The sample is from 1971 to 1980. Table 9 presents calculations of correlation coefficients between public and private 'donation' per spectator. Evidence of significant positive correlations would bring into question the proposition that public and private contributions are substitutes. Such evidence, in turn, would be consistent with the argument that 'donations' are in effect payments under explicit or implicit contracts for services (such as advertising) rendered.

Out of the eighteen correlation co-efficients presented, ten reject the null hypothesis that the correlation co-efficient is zero. These ten results are all positive and are significant at the five per cent level or below. Such findings support the proposition that, in these cases, the public and private contributions are not substitutes. However, among the remaining eight results it should be observed that, even in the two cases where the co-efficients are negative, the hypothesis that substitutability is pre-

TABLE 8

Box office, private and public support per spectator, all disciplines, 1971-1980 (in constant 1971 dollars)

	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980
<i>Small companies</i> (less than \$100,000 in expenditure)										
B.O./Spect.	\$3.41	\$1.69	\$1.89	\$1.35	\$1.09	\$0.93	\$0.81	\$0.92	\$0.86	\$0.84
Private/Spect.	0.78	0.35	0.38	0.24	0.36	0.27	0.33	0.34	0.29	0.27
Public/Spect.	3.68	1.68	2.00	1.86	1.78	1.80	1.43	1.38	1.21	1.08
<i>Medium companies</i> (between \$100,000 and \$400,000 in expenditure)										
B.O./Spect.	1.94	1.57	1.26	1.29	1.25	1.42	1.39	1.56	1.69	1.63
Private/Spect.	0.37	0.36	0.29	0.38	0.36	0.39	0.54	0.51	0.52	0.62
Public/Spect.	1.53	1.29	1.10	1.25	1.14	1.87	1.67	2.02	2.12	1.91
<i>Large companies</i> (more than \$400,000 in expenditure)										
B.O./Spect.	2.95	2.53	2.79	2.48	2.34	2.34	2.49	2.75	2.64	2.72
Private/Spect.	0.68	0.54	0.50	0.56	0.48	0.55	0.59	0.72	0.68	0.75
Public/Spect.	2.33	1.99	2.04	2.03	1.75	1.85	2.02	2.15	2.05	1.92

SOURCE: Canada Council. Research & Evaluation. *Performing Arts Data Base*.

TABLE 9

Correlation co-efficients between public and private contributions per spectator by category, 1971-1980

	Total	Theatres		
		Small	Medium	Large
		(Exp. less than \$100,000)	(Exp. between \$100-\$400,000)	(Exp. more than \$400,000)
Dance	0.7391 <sup>a</sup>	N/A	0.5218 <sup>d</sup>	0.8133 <sup>a</sup>
Theatre	0.3855	0.8291 <sup>a</sup>	0.7130 <sup>b</sup>	-0.2772
Opera	-0.1737	N/A	0.1600	0.2641
Music	0.8614 <sup>a</sup>	0.3117	0.7658 <sup>a</sup>	0.8962 <sup>a</sup>
Total	0.5943 <sup>c</sup>	0.9045 <sup>a</sup>	0.7827 <sup>a</sup>	0.5032

<sup>a</sup> Significant at 1% level (one-tailed test; critical values calculated according to the test presented in Newbold [1984], 447-8)

<sup>b</sup> Significant at 2½% level

<sup>c</sup> Significant at 5% level

<sup>d</sup> 1972-1980

SOURCE: See Table 8.

sent is not supported, since the results are not significantly different from zero.

It must be acknowledged that the data is in terms of groups of theatres (e.g., large, medium and small dance companies). Ideally one requires more disaggregated information relating to each theatre company separately, and it is hoped that such facts will be forthcoming in the future. In the meantime, it does not seem unreasonable to conclude that our estimates of correlation from currently reported statistics are suggestive in the ways indicated. Our results, moreover, are consistent with Netzer's and Seaman's findings that public 'donations' to the arts do not crowd out private 'donations'.

We conclude that the available evidence appears to support the view that the act of private and/or public 'donation' in the arts reflects *pre-dominantly* an 'exchange' rather than a 'giving' relationship. The typical donations do not appear to be substitutes and this is consistent with a scenario wherein each donor has a separate objective function to maximize. Meanwhile, efficiency in achieving these separate goals can be seen in terms of maximizing attendance per dollar of donation.

The results of this analysis also indicate that applications of the joint supply model to the performing arts (as outlined above) would appear plausible. This suggests in turn that the practice in this field of focusing upon what has been called the 'income gap' has been inappropriate. What has been neglected is the possible co-existence of joint markets for services, each of which could generate sufficient income to cover its share of the total cost. The purchase of tickets by consumers represents only one of these markets; donations, as exchange rather than gift relationships, simultaneously involve others.

#### NOTES

- 1 See especially C.D. Throsby and G.A. Withers (1979) *The Economics of the Performing Arts* (London) 10.
- 2 A certain composer once argued that the consuming public (demand) is unimportant anyway because the production of music is justified in its own right; if audiences are necessary it is only because their presence helps the acoustics!
- 3 An important additional reward from conversion to nonprofit enterprise, of course, has been the avoidance of corporation taxes. Their significant increase in the past two or three decades has obviously lowered each firm's price of reorganization into nonprofit status.
- 4 This point happens to represent a somewhat greater output than the social optimum, which is determined by the intersection of  $AR$  and  $M_c$ .

## 5

# Cost tendencies and policy implications

### THE BAUMOL-BOWEN THESIS

Twenty years ago, Baumol and Bowen (1966, 382-3) argued that the arts industry is disposed to suffer inevitable cost increases. Because the performing arts in particular are inherently labour-intensive, there are only limited means, they argued, of substituting machinery and other forms of capital for labour (factor substitution); since productivity improvements are concentrated in the capital sector, the average productivity in arts will rise very little if at all relative to the rest of the economy. Further, when productivity in the rest of the economy is rising, wage rates in the arts sector must rise together with the wage rates elsewhere if it is to maintain its customary labour force. If wages do not rise in the arts sector, and assuming a constant demand for the arts, then the resulting wage differentials would cause some migration of labour from the arts industry to others until wages are equalized. (As we shall see, however, some resources are so specific to the arts that they are virtually immobile.)

The arts, therefore, according to Baumol and Bowen, will always be experiencing both low productivity increases relative to the rest of the economy and rising wage rates. The consequence will include increases in the costs of production and in ticket prices. Indeed, in the absence of government intervention, ticket prices will rise quite significantly. Since the law of demand predicts that less will be demanded at higher prices, the result will be a decline in the quantity of performing arts services supplied. Such a trend could lead to the gradual 'withering away' of the arts industry. If this economic analysis is accepted, Baumol and Bowen contend, government subsidy will become essential not for expanding artistic output but merely for *maintaining* it at a constant level.



Notice, however, that the assumption of a constant demand for the arts (or a very low income elasticity of demand) is strong. In a world of growing incomes (mainly because of productivity improvements in the non-arts sectors) it is possible that people may want to spend much of their newly gained purchasing power on the arts. This could lead to such a shift in the demand curves as to offset rising costs. But the Baumol-Bowen thesis appears to place a low probability on such an outcome.

The Baumol-Bowen thesis has received considerable critical attention in recent years. Many economists have found it difficult to accept the idea that productivity will not rise significantly in the arts. They point out that the performing arts, in many cases, are already operating below their maximum level of potential efficiency. Subsidies in these cases are likely to delay innovation and to establish a dependency relation with the state. Others have produced evidence to show that significant productivity increases do occur in the arts. They result in practice from the adaptation of new technology or from the more efficient use of existing technology. Netzer (1978), for instance, gives the example of new sound-amplification systems that work well in halls and theatres previously considered unsuitable for performances. Peacock (1981) has presented recent evidence of factor substitution in the arts. In the field of music, for example, the total on-stage labour input has been reduced without sacrificing quality. It is likely that there also has been a trend towards a diminution in the size of casts in theatre plays.

Table 10 shows the employment experience in the Ontario performing arts industry between 1971 and 1981. Figures for Canada are also included for comparison. This data suggests, at least at first sight, a situation that is almost the opposite of the Baumol-Bowen description of the arts world. The arts industry appears to have grown faster than most other industries! Employment in Ontario of dancers, choreographers and actors nearly trebled in the decade examined. The number of producers and directors doubled while that of musicians grew by 74 per cent. Experience in Canada as a whole was remarkably similar.

Table 11 shows that employment in the arts industry increased by 58 per cent compared with a 39 per cent increase for all industries in this period. The classification of the arts industry is a broad one in this table – it includes publishing, printing and the motion picture industry. When we examine the category called theatrical entertainment (which includes the performing arts as described in Table 10) we find labour force growth of 127 per cent. Evidence for a matching expansion of output of the performing arts is presented in Table 12, which shows that

TABLE 10  
Occupations in the performing arts, 1971-80

	Ontario			Canada		
	1971	1981	% growth	1971	1981	% growth
Producers and directors	1,330	2,735	206	3,295	6,965	211
Musicians	2,680	4,655	174	6,645	10,995	166
Dancers and choreographers	30	85	283	70	190	271
Actors	250	710	284	595	1,555	261

SOURCE: Statistics Canada (1981) *Census of Population* Cat. 92-920, Volume 1, Table 1.

TABLE 11  
Growth in the Canadian arts industry labour force, 1971-81

Industry	1971	1981	% growth
Arts industry	150,080	236,610	58
Theatrical entertainment	8,410	19,085	127
All industry	8,626,930	12,005,320	39

SOURCE: Statistics Canada, Census and Household Statistics Branch. *Census: Economic Characteristics*.

TABLE 12  
Production and the performing arts in Canada, 1971 and 1981

Industry	1971	1981	% growth
Number of companies	40	187	386
Expenditure	\$22.6 million	\$39.6 million	75
Attendance	3.9 million	8.7 million	123
Performances	5,975	24,527	310

All dollar figures in constant 1971 dollars.

SOURCE: Canada Council, *Performing Arts Data Base*.

attendance more than doubled and the number of performances quadrupled in the 1970s.

It is true that over the same period subsidies from the federal government were increasing in money terms. Because of inflation, however, there was no *real* increase in federal support for the last half of the decade (Canada Council 1979-80, 4). And in absolute terms, the federal share of expenditures in the arts was still only about one-sixth of the total in 1981. Certainly the subsidies in the early seventies must have contributed to some of the expansion of the arts industry over the period. But it is extremely doubtful whether that contribution was the central, or only, explanation for the dramatic rise of arts activities that is shown in Tables 10 through 12.

If government intervention in Ontario (and Canada) had been based solely on the argument of the Baumol-Bowen thesis, subsidies would have expanded sufficiently to maintain only a *constant* output of the arts per capita. On the evidence, we can clearly reject such a proposition. Similarly, we can reject the argument that the aim has been to protect future generations from an erosion of their cultural inheritance. The public authorities appear to have an interest not in preserving but in increasing artistic output. If this policy is still based on an economic rationale, it must therefore rest upon one or more of the other arguments that we have reviewed: public goods/externalities and merit goods.

## INFLATION

Some economists have been impressed by the way in which cultural activities in other countries have been able to survive, let alone expand, in periods of inflation and recession such as those that occurred between 1971 and 1980. One writer (Peacock 1981) has emphasized the simple proposition that if expenses per unit of output are rising faster than revenue, the first technique for survival would be to cut costs. If physical productivity improvements were impossible, then the only remaining avenue would be to reduce wages and other incomes from the arts. If this did not result in significant migration from the arts, then presumably the situation is one where rents are being squeezed. Peacock reports clear evidence that this is what has happened in Britain.

The 'solution' by way of reduction of the rent elements in wages and other incomes is most obviously the one dictated in the case of a symphony orchestra that plays 19th century music which must be produced by a rigidly fixed number of musicians (i.e., there is a fixed production co-efficient). It is in such a case, of course, where the productivity improvement is least possible.

Interestingly, Baumol himself has since reported that the real cost increase predicted by his earlier model (with Bowen in 1966) has not been supported by the evidence in periods of relatively rapid inflation (Baumol and Baumol 1980). Baumol's finding, like Peacock's, was that in such periods the real incomes of US orchestras tend to fall. It would be interesting to make a similar investigation for Canada. So far, however, it appears difficult to obtain the relevant data.

Peacock has also pointed to the paradox of belt-tightening being accepted by labour unions, and these are strongly entrenched in the performing arts. Unions normally will successfully resist cuts in the real wage because they can force employers to reduce their labour force. Such reduction, however, is often impossible in the performing arts. As Peacock observes: 'Firing the last two desks of all string sections and the fourth member of every woodwind and brass section destroys the product' (ibid.).

Recently acknowledging Peacock's finding of reduced wages and salaries in the performing arts during periods of stagflation, the research director of the Canada Council has commented on what he believes to be the inequity of such a situation. The finding, he argues, simply endorses the claim that 'the largest subsidy received by the fine arts takes the form of depressed wages and salaries received by individual artists' (see Chartrand 1984, 19). The Applebaum-Hébert Report agrees (p. 4). But there is no evidence that the salaries and wages are not at competitive market levels (as distinct from imperfectly competitive levels often negotiated by unions). If artists freely enter the profession in such circumstances, they are not being coerced to provide 'subsidies' to others.

#### AN EMPIRICAL TEST OF BAUMOL-BOWEN

The Baumol-Bowen thesis, to repeat, translates to the testable (or refutable) hypothesis that the arts industry is characterized by inescapable increases in costs. A scientific testing of it ultimately requires an appeal to actual data on cost trends. Such evidence is contained in Table 13. The facts therein relate to total cost, artistic personnel cost, and administration cost, all divided by the number of performances and all covering the period between 1971 and 1980. Also shown are total costs per spectator.

Total cost per performance (in constant 1971 dollars) fell from \$3,775 to \$1,615, representing a decrease of 57 per cent. Total cost per spectator fell from \$5.76 to \$4.57, a drop of 21 per cent. What is equally interesting is the fact that the total cost of artistic personnel per performance fell by 64 per cent, a drop 7 per cent greater than that for the total cost per performance and 9 per cent greater than the drop in administrative costs



TABLE 13

Cost trends in the Canadian performing arts, all disciplines (in thousands of constant 1971 dollars)

	1971	1973	1975	1977	1979	1980	Ratio 80:71
Cost/Perf.	\$3,775	\$2,782	\$2,101	\$1,861	\$1,767	\$1,615	43%
Artistic per./Perf.	1,900	1,346	948	823	780	689	36
Admin./Perf.	466	298	245	235	223	210	45
Cost/Spect.	\$5.76	\$5.12	\$4.50	\$4.50	\$4.87	\$4.57	79

SOURCE: Canada Council (1984b), Table 8(a).

per performance. All remaining major cost items per performance fell less than the costs of artistic personnel. These were: technical personnel (57 per cent drop), promotion and publicity (50 per cent drop) and space costs (52 per cent drop). The information contained in these figures shows the opposite of what would be expected from the Baumol-Bowen hypothesis. The latter predicted that total cost per performance (or per spectator) would rise. One was also led to expect from the Baumol-Bowen argument that the costs of artistic personnel per performance would rise more than other costs because it is in this area that productivity improvements are least possible. But again, the actual figures point in the opposite direction.

It may be argued that our measure of cost change does not standardize for output. Certainly our findings would have to be qualified if, over the period in question, the pattern of output of and demand for the performing arts had changed in the direction of favouring less expensive performances that involved smaller casts. There is no evidence, however, to support this possibility. Tables 10 and 12 show that the number of professional actors grew by over two-and-a-half times, while attendances grew by less than this proportion. It may also be argued that costs decreased over the period because of an unusual expansion of amateur productions. (The figures in Table 13, however, refer exclusively to professional productions.)

Finally, it may be conjectured that the declining cost trends shown in Table 13 were mainly the result of a once-and-for-all attainment of economies of scale. Increased demand could have made larger companies (that experience such economies) more viable. The evidence, however, does not support this hypothesis. The average size of companies in terms of annual expenditure actually fell from \$561,967 in 1971 to \$211,929 in 1980 (Canada Council 1984b).

One must conclude, therefore, that the reported decrease of 21 per cent in costs (see Table 13) per spectator between 1971 and 1980 provides firm

evidence against the Baumol-Bowen hypothesis that there is an *inevitable* tendency of cost increases in the performing arts.

#### INTERNATIONAL STANDING

To return to the facts on the growth of the arts industry in Ontario and Canada, the remarkable increase shown in Tables 10 through 12 might suggest that the level of output should be approaching that of the traditionally 'more cultural' countries of Europe.

To throw some light on this question we need an estimate of aggregate Canadian public expenditures from all levels of government. The following data for 1981-2 on Canadian public support for cultural activities broadly defined were supplied by Statistics Canada: federal, \$1,254 million; provincial, \$809.7 million; municipal, \$450 million. The total was thus \$2,513.7 million. From this figure, the (official) maximum estimate of intergovernmental transfers (\$100 million) was deducted.

We are thus left with a total public expenditure of \$2,413.7 million for 1981-2. This amounted to approximately \$99 per head of the Canadian population. Table 14 shows the various components of cultural activity that benefited from the public expenditure.

An attempt will now be made to compare other countries. This task is not easy because of variations in the definition of culture and different public accounting traditions across countries. But some work is being done on this problem (Myerscough 1984), and because of this one can make reasonable comparisons with countries that have similar data to Canada's. To achieve a closer comparison we would need to obtain the 'highest common factor' of separate items that comprise the cultural budgets of countries that are potentially comparable. The Policy Studies Institute of London has reasonably reliable figures for five countries that may be compared with Canada provided we delete libraries, broadcasting and heritage (the last three items in Table 14); that is to say, we can compare all six countries with respect to a definition of cultural activities that comprises the first nine items of Table 14.<sup>1</sup> The resulting information, which refers to combined levels of government, is produced in Table 15.

It will be seen that, out of the six countries examined, only Sweden has a significant lead over Canada. It should be added that, insofar as allowable tax deductions for art donation can be regarded as a subsidy, the estimate for Canada is biased downwards since it has a more liberal tax deduction provision than average. It may well come as unexpected news to many readers to find that Canada's expenditure is now greater than

TABLE 14

Components of public expenditure on cultural activities in Canada: 1981-82

1	Performing arts	7	Crafts
2	Art galleries and museums	8	Multiculturalism
3	Literary arts	9	Archives
4	Visual arts	10	Libraries
5	Film	11	Broadcasting (TV and radio)
6	Sound recording	12	Heritage

TABLE 15

International comparisons – combined local and central government expenditures on the arts in six countries

	Cdn. \$ per head	Year
Austria	52.0	1981
France	55.8	1980
West Germany	34.3	1981
Sweden	69.4	1980-81
UK	12.6	1979-80
Canada	49.26	1981-82

NOTE: The information on all overseas countries appears in the Policy Studies Institute's work in terms of pounds sterling. Conversions into Canadian dollars were done by applying mid-year exchange rates.

SOURCE: Myerscough (1984).

that of West Germany and almost matches that of Austria and France. Although the figures for the UK relate to 1979-80 whereas those for Canada refer to 1981-2, the former is still obviously far behind.

The question of whether Canadian support to the arts as illustrated in Table 15 is at or above optimum of course requires further discussion. Some arts devotees may insist that other countries are *below* appropriate levels of support and countries such as Canada, Sweden, and France are the true 'pioneers'. One can at least conjecture that the information in Table 15 will surprise the average Canadian citizen, especially as it shows that, on the average, a family with two children in 1981-2 paid almost \$200 (Cdn) in taxes destined for support for all the twelve types of cultural activities shown in Table 14. But this level of taxation for culture, plus the evidence of international standing, seems consistent with the evidence of dramatic growth in the supply of the Canadian arts industries between 1971 and 1981 as shown in Tables 10 through 12.

#### NOTE

- 1 I am grateful to John Myerscough of the Policy Studies Institute for information on these matters gathered during a consultation with him in London in August 1984.



## 6

# The funding agency and its clients

What is a 'waste' of money in the field of the arts, and how would one recognize waste if one saw it? (King and Blaug 1976, 102)

## INTRODUCTION

Disregarding for the moment the various normative arguments concerning government subsidies to the performing arts, we first need to examine the world as it is and, especially, the actual institutions through which subsidies are channelled. Accordingly, we shall start by turning our attention to the activities of the principle funding agency in Ontario: the Ontario Arts Council (OAC). Following this we shall focus upon the predominant group among the agency's clients, namely, the artists.

## THE ONTARIO ARTS COUNCIL

Given that the Ontario government provides substantial financial support to the performing arts through the OAC, it is desirable to examine the latter's own particular policies for two reasons. First, as a publicly accountable body, its methods of spending tax dollars should be evaluated. Second, by inspecting the OAC's policies and policy statements, we might gain further insight into the basic rationale for its existence.

We begin by outlining the short history of the OAC, its structure and its mandate. The Council was formed in 1963 following an act of the provincial parliament. It was originally lodged with the Ministry of Education but later moved to the Ministry of Colleges and Universities. Finally, in 1973, it was transferred to the Ministry for Culture and Recreation which is now the Ministry for Citizenship and Culture.

As described in its annual report for 1980-1, the Council consists of twelve members from different regions of the province who are selected

'for their knowledge and support of the arts and who are appointed with remuneration for three-year terms.'

The OAC Act defines the objectives of the Council in the following way:

It is the function of the Council, and it has the power to promote, the study and enjoyment of works in the arts and to such end may (a) assist/co-operate with and enlist the aid of organizations whose objects are similar to the objects of the Council; (b) provide through appropriate organizations or otherwise for grants, scholarships or loans to persons in Ontario or elsewhere or to persons in other provinces or territories of Canada or any other countries for study or research in the arts in Ontario; (c) make awards to persons in Ontario for outstanding accomplishments in the arts. (The Ontario Arts Council Act 1962-63, [Bill 162])

In its first year of operation the Council received from the provincial government an operating budget of \$300,000. By 1981-2 more than \$12 million was being allocated in grants and programs.

#### PRIORITIES

As in all areas of government spending, the economist is interested in the way public funds are actually allocated, and the general efficiency with which the relevant administration fulfils its function. It should be conceded straight away, however, that the task of evaluating the policies of an organization such as the OAC, whose mandate is to 'promote the study and enjoyment of works in the arts,' is not easy. In order to evaluate policies, we must know much more precisely the objectives which define the Council's purpose. A search for such objectives has led us to the annual reports of the OAC in hopes of finding some relevant evidence. While we recognize that such documents are far from ideal as policy indicators, the absence of alternatives with which to evaluate arts funding over time has forced us to rely on these reports.<sup>1</sup>

In the annual report for 1963-4 the Council expressed its purpose as follows:

The Ontario Council for the Arts strives to strengthen and deepen in the minds of our people, a richer and fuller appreciation of the quality, character and majesty of intellectual and cultural pursuits.

This is one of many examples in the annual reports which tend to restate Bill 162 as a policy. However many attempt to recognize clear goals from a mandate which is neither specific nor objective in itself, it cannot

provide practical guidelines, and thus makes it almost impossible to evaluate the relative success of arts policy. For in truth, *any* policy which can be shown in some way to promote the study and enjoyment of works in the arts can be defended as fulfilling the mandate presented in Bill 162. Below, we illustrate some implicit conflicts in policy by reference to the annual reports and show how these conflicts can be resolved.

#### DESIRED HORIZONTAL DIFFUSION

Since, by the mid-1970s, the OAC was actually dispensing funds, it was inevitable that some more precise policy pattern would begin to emerge. The 1974-5 report, for instance, observed that:

many more outlets for artistic expression have opened their doors in more and more places. In other words the Ontario Arts Council can say with conviction that it has progressed still further in fulfilling the mandate given to it by the Ontario Government in 1963.

This interpretation of the mandate implies the need for regional or 'horizontal' diffusion of the arts. By this is meant the satisfaction of existing cultural demand through an increase in the supply of the arts geographically. In contrast, 'vertical' diffusion is the development of new audiences.

Diffusion was also mentioned in other annual reports – not so much as a conscious goal, but rather when describing policies by which it had been affected in practice.

By the end of the 1973-4 season, the ONTOUR office had been created, so called in recognition of

the volume of arts events reaching out to all parts of Ontario, to villages as well as large centres. (Annual Report for 1974-5)

#### ACTUAL HORIZONTAL DIFFUSION

On examining the report for 1977-8, however, we find that the budget (grants plus programs) for community arts development, arts/education and touring combined, totalled \$1,293,900, which was only 12 per cent of the total budget. By comparison, the nonspecific grants awarded for operating expenses to nine large Toronto companies<sup>2</sup> totalled \$1,679,600 or approximately 16 per cent of the total budget for grants and programs.

Spending a significant percentage of its budget on large Toronto companies is, of course, an alternative and potentially viable policy. The

fact is, however, that the Council had actively claimed to pursue decentralization through diffusion. This intent was restated the following year:

We have a medium interest in economics, a heavy interest in education, no interest at all in politics, but a great deal of interest in demagnetizing the cultural power of Metro Toronto. (Annual Report for 1978-9)

If the figures were to show that, over time, resources had, in fact, been transferred from urban centres to smaller communities, then the OAC could claim it was moving toward its stated goal. The 1981-2 report revealed, however, that the same nine Toronto organizations received \$1,978,000 for operating expenses, or 15 per cent of the total budget for grants and programs, while community development, arts/education and touring received \$1,894,000 or 14 per cent of the total budget.

#### THE TRADEOFF WITH EXCELLENCE

Any organization in the pursuit of multiple goals will find that some may inherently conflict with others so that an explicit tradeoff is required. As already stated, an argument *can* be made in favour of the policy of financially supporting large, professional Toronto-based companies. The policy is particularly consistent with the goal of raising artistic standards or 'excellence'.

Excellence as a central objective seems to have been actively encouraged by the OAC, and yet its pursuit inherently conflicts with the goal of horizontal diffusion. There need not, of course, be a choice of one goal to the complete exclusion of another. But to the economist, what is required is a clear statement of the relative importance of each goal in terms consistent with the Council's utility function.

#### EDUCATION

In the context of the implicit goal of vertical diffusion, the Council has placed much emphasis on education. The idea seems to have been to create a market for the arts, through education. There are many references in the annual reports to a desire to induce some form of benign 'addiction' to the arts.<sup>3</sup>

A survey of existing audience research published by the Canada Council (McCaughey 1984) shows that the general body of empirical evidence supports the view that early exposure to the arts increases the chances of future attendance. In the 1974-5 season, the OAC commissioned an audience survey (The Audience for the Arts) which,



according to the 1974-5 report, revealed 'an unmistakable co-relation between attendance at arts events and exposure to such experiences at an early age, usually in schools.'

The total arts/education allocation for 1974-5 was \$438,265 (approximately 7 per cent of the total budget). By 1981-2 the arts/education budget was only 6.8 per cent of the total budget. Thus, although there is strong evidence to support the acknowledgement of the importance of education in arts policy, it has neither assumed a major proportion of the OAC budget nor changed significantly in this respect.

To our knowledge, no distinction has been made to date concerning the relative importance of various *types* of 'early exposure' in explaining adult demand for the arts. In order to test for any significant difference between child participation compared to child attendance as two distinct types of experience, a standard qualitative response model<sup>4</sup> was used to analyse a subsample of 340 responses from our Ontario telephone survey.<sup>5</sup> The following equation was estimated:

$$ATT = \alpha + \beta_1 EDUC + \beta_2 INCM + \beta_3 TAKN + \beta_4 PART,$$

where

- ATT* = dummy variable such that *ATT*=1 for attenders, and *ATT*=2 for non-attenders
- EDUC* = a variable depicting the five education levels in our survey
- INCM* = a variable depicting the four income levels in our survey
- TAKN* = a dummy variable such that *TAKN*=1 for those taken to the arts as a child, and *TAKN*=0 for those not taken.
- PART* = a dummy variable such that *PART*=1 for those who participated in the arts as a child, and *PART*=0 for those who did not participate.

The results of the analysis are shown below:

<i>ATT</i> = -2.77 + 0.44 <i>EDUC</i> + 0.46 <i>INCM</i> + 0.19 <i>TAKN</i> + 0.55 <i>PART</i>				
T-STAT: (-7.1)	(4.32)	(3.45)	(0.76)	(2.09)
STD. Error : (.391)	(.103)	(.103)	(.249)	(.261)
Likelihood Ratio Test	=	62.25		
Durbin Watson	=	1.94		

As expected, both education and income are strong explanatory variables, each being significant at the .005 level. However, it is worth noting that the co-variance matrix showed no signs of multicollinearity between the two variables. In other words, the indication is that income and education can be regarded as being independent of each other when considering their affect on attendance.

The separation of *TAKN* and *PART* variables provided a still more interesting result. The co-efficients indicate that the experience of being taken to the arts as a child does not significantly affect future attendance. In contrast, child participation is shown to have an extremely potent effect.

This result has some important implications for policy. Programs that encourage child participation should be expanded within the scope of the Council's budget, and similarly programs that encourage child attendance should at least be carefully evaluated. It seems appropriate for there to be some overlap between the Arts Council and the Board of Education regarding 'cultural conditioning' in the schools. To this extent a defined responsibility is required. The Macaulay Report has already recommended that a liaison committee between the OAC and the OBE be set up for this purpose.

Aside from the education system, the Arts Council should also consider the many amateur groups in the province, in particular those involving young people. Amateur arts have been largely ignored by both the Canada Council and the OAC, yet these groups have considerable potential for encouraging child participation. Since there is general agreement that early exposure is the key to future demand, the question arises as to why funding for it has remained at such a small proportion of arts council budgets. Insufficient funding is an inadequate explanation. The problem concerns the allocation of the budget more than its size. More specifically, there is an imbalance between policies that encourage supply and policies that encourage demand.

#### SUPPLY-SIDE AID

While the Council has advocated horizontal and vertical diffusion, these objectives have usually been regarded as best accomplished by encouraging the supply (producer) side as distinct from the demand (consumer) side. The prevalence of supply-oriented policies is likely to have two effects. First, increasing the supply of the arts is likely to encourage existing rather than new demand. The characteristics of existing audiences (as demonstrated by the OAC survey) suggest that they are comprised of well-educated, relatively wealthy people that are employed to a large extent in executive managerial occupations. Furthermore,

these consumers attend the arts frequently. Second, supply-side subsidies to the arts tend to encourage a growth in the number of artists and performing groups that exceeds the growth of audiences. As we have already shown above, in the period from 1971 to 1981, the percentage growth in the number of performing arts companies in Ontario was 525 per cent relative to a 247 per cent growth in total attendance and a 285 per cent increase in the total number of performances.

Consider next the equity of a system that uses revenues from taxes on all, including the poor, to encourage a predominantly high-income minority to enjoy more and better arts. (This question is discussed fully in Chapter 10.) The idea of diffusing the arts certainly appears to promise some correction to this distributional problem since it suggests a 'fair share for all' sentiment. The fact remains, however, that supply-side policies on their own continue to exclude a large proportion of taxpayers and especially lower-income individuals. As King and Blaug (1976) point out, if larger new audiences are desired, then it is questionable whether arts councils should be spending such a large proportion of their budgets on art forms with limited appeal. The same observation applies to the OAC.

#### COST-EFFECTIVE ANALYSIS

Blaug (1976) has set out a formal structure that could be employed by an arts council not only as a measure of its fulfilment of public duties, but also as an evaluation system to help internal decision making. Such 'cost effective analysis', as he describes it, can be separated into three steps:

- 1 Specify each objective such that it can be scaled – cardinal or ordinal.
- 2 Generate alternative policies for achieving the objectives – assess effectiveness in achieving each objective in terms of a scale and express as a proportion of the costs of the policy.
- 3 Apply the decision maker's preference function, indicating his order of priorities among the objectives in terms of numerical weights.

Such a prescription is obviously idealized, since it is not likely that we can expect an *exact* specification of the decision maker's preference function. It is nonetheless useful, even if only as an approximation, in setting out the decision process in an organized fashion.

It could be argued that some form of cost-effectiveness analysis may already be employed internally within the Arts Council. The lack of explicit, consistent and clear objectives in its annual reports could be viewed as a means of preserving independence from political inter-

ference. The fact remains, however, that the OAC is a publicly accountable agency. As long as the Council has the freedom to define its own objectives, priorities and policies, there should be little cause for concern. But such objectives should be expressed somewhere; otherwise, external or public accountability is meaningless. Internally, too, the explicit articulation of objectives is crucial. If policies fail in terms of the objectives, then alternative strategies should be considered.

Most arts council targets or objectives can be partially quantified by use of audience figures, the number of productions, the content of productions and ticket prices. Had this type of decision model been implemented, and made available to the public, we could have advanced considerably in answering the central questions discussed in this chapter: what has the OAC set out to accomplish? To what extent has it been successful in reaching its goals? Are the goals 'legitimate'? How can the Council become more successful?

THE INDIVIDUAL ARTIST

In Chapter 5 we showed that the growth in the arts labour force since 1970 has been unmatched in most other sectors of the economy. Increases in excess of 150 per cent for actors, musicians, dancers, singers, directors, choreographers and producers contrast with a growth in the total labour force of only 39 per cent over the period from 1971 to 1981.

'Artists' can, of course, be performers, interpreters, creators, or any combination of these. The significant expansion in the arts labour force has applied equally to nonperforming as to performing arts. Table 16 shows the change in selected nonperforming arts labour in Canada. In particular, it shows a remarkable increase in the numbers of painters and sculptors.

TABLE 16  
Selected nonperforming-arts occupations (experienced labour force)

Occupation	1971	1981	% change
Painters/sculptors/related artists	2,310	7,950	+ 244%
Writers and editors	14,780	28,755	+ 95%
Photographers/cameramen	5,470	9,010	+ 65%
Translators and interpreters	1,995	6,240	+ 213%



## THE FEDERAL CULTURAL POLICY REVIEW COMMITTEE AND THE 'ARTIST'

Referring to the individual artist, the Applebaum-Hébert Report (1982) stated:

There are improvements to be made in education and training and in physical facilities. And most of all there is an urgent need for a new emphasis on the presentation of works of Canadian playwrights, composers, and choreographers. (171)

More specifically, the report recommended that:

The federal Government should assist dancers and other artists who have short professional careers to resettle into allied professions where their artistic skills can best be put to use.

The Canada Council should initiate a program of incentive grants related to the presentation of new Canadian works in the Performing Arts, the advertising and marketing of such works and the increased cost of rehearsing and producing them.

The Canadian Music Centre should be given adequate financial and other support to enable it to carry out its function on behalf of Canadian music, including the promotion and dissemination of the works of Canadian composers and the employment of new technologies for the storage and use of musical compositions.

The National Arts Centre should adopt a policy of showcasing the best available Canadian talent and productions in all the performing arts.

## THE MACAULAY COMMISSION REPORT

Consider next the Ontario government's publication of the findings of the Special Committee on the Arts chaired by Robert Macaulay in 1983. Its report also devotes significant space to individual artists and in particular to their incomes.

To survive, many credible professional artists in Ontario must take outside jobs, often in arts-related fields, especially teaching. (15/1)

While the public on the one hand wants the artist to exist, few people would willingly accept for themselves the current lot of the artist. At the moment, artists are underpaid, insecure and underprotected compared to other producers in our society. (15/2)

The Committee made several recommendations concerning the plight of artists. In the main these included amendments to change their tax status such that there would be no distinction between self-employed and employee status for tax purposes, and that there should be provision for 100 per cent deduction against the artists' total income for arts-related expenses. The Macaulay Committee also proposed that all professional artists should qualify for unemployment insurance and the Canada Pension Plan.

In addition to problems of 'status', the Committee outlined a problem relating to property rights: 'One of the most significant areas in which an artist can be assisted is in fees paid for the exhibition, performance, reproduction etc. of the artist's works.' However, it is increasingly difficult to secure a rate for the job. In particular, there are growing problems with enforcement of the copyright laws.

This brief review of the Applebaum-Hébert and Macaulay Reports and the annual reports of the Ontario Arts Council reveal a predominant concern with the income and status of professional artists, property right problems associated with the performing arts, and problems relating to the creation or performance of Canadian works. Further insight might be gained if we examine more closely the nature of the 'artistic' process itself.

The creative artist can be said to be someone who selects and combines, in an original way, elements of a chosen language relating to one or more dimensions of experience. We can assume that all of us in some way are, or have the potential to be, creative. But some appear to be born more creative than others; and without descending into a discussion of 'nature versus nurture', it can be said that artistic creativity is distributed by degree rather than by having or not having 'talent'. This may seem a moot point but it is important, since those of us with below average creativity, while unable to entertain or enlighten the public, are nonetheless capable of appreciating the more advanced talents of the creative artist.

A problem arises, however, when creators, especially contemporary ones, are not appreciated by a significantly large audience. Is this because the ideas often expressed by such artists are so advanced or ahead of their time that the public cannot understand their creations? Or is consumer indifference the ultimate barrier? There are countless examples of yesterday's artists who have become recognized only belatedly, with their work ignored or even ridiculed during their lifetime. For example, the ballet *Le Sacre du Printemps* caused a near riot when it opened in Paris; but some seventy-five years later, Stravinsky is accepted as one of the greatest twentieth-century composers. After the

failure of his play *The Dutchess of Padua*, Oscar Wilde said 'the play was a profound success but the audience a profound failure.'

However, even with these examples we are only comparing the tastes of performing-arts audiences over time; and audiences remain a small percentage of the total population. As Scitovsky has noted, our society relies on the demand for a good to be sufficiently large and homogeneous in order for that good to be produced in the private market. He views this 'mob rule' with concern. Goods such as the contemporary arts, although legitimate and desirable, cannot be supplied in the private market at feasible prices and quantities. His main explanation for this 'market failure' focuses on the apparent skills in consumption that are required to understand and enjoy the performing arts, and which most of the 'TV watching/shopping' general public do not possess.

Yet there are many forms of artistic creativity that do receive market support. A recent example is break-dancing, a form of dance that originated on the streets of New York and has since spread in popularity worldwide. We cannot condemn the participants or audiences for having never attended the ballet and we cannot say that break-dancing is any less creative or artistic than the 'serious' arts. Here, then, we must separate élitism from genuine concern for the arts. There can be no standard justification for implying artistic inferiority from mass appeal. To be commercially successful and therefore independent, without artistic compromise, is surely every creative artist's dream. Nonetheless, the tendency is to assume that any commercially successful art form must have made artistic compromises to the degree that they can no longer be considered 'serious'.

In the noncommercial arts, the creative artist receives funds primarily from the government, and from working either as a performer or in the general workforce. The system of allocating grants as employed by the Canada Council and the Ontario Arts Council utilizes panels of experts from each field of endeavour to judge the artistic potential of each 'client'. While this system may protect the arts from ministerial interference, it cannot control for the incentives to submit grant applications which artists believe have a good chance of acceptance rather than applications which embrace the full measure of their artistic intentions. In other words, we cannot expect any system of resource allocation in our imperfect world to leave the behaviour of competitors for those resources completely unaffected, regardless of whether votes are cast by consumers in the market or by experts in a government funding committee.

Those who choose full-time involvement in creating new works of art can be said to receive 'psychic' income in addition to their money income. In Keynes's *The General Theory*, he, like Adam Smith before him, stated

that the wage is a compensation for the disutility of labour. Jobs that are, say, strenuous or monotonous are compensated to some degree by a positive differential because the willingness of workers to offer themselves is relatively limited. In contrast, in a market such as the performing arts, where the job is personally stimulating and far from tedious, the creative artist cannot hope to command anything more than a small salary until established as a recognized talent. The non-pecuniary or psychic component of the artist's income is, of course, apparently present at all times. Because it is usually appreciable, a measure of the welfare of artists that employs money income exclusively will be an underestimate.

Table 17 shows the percentages of individuals in specific arts occupations by total income group, with an aggregate percentage for all the occupations. When compared with the general labour force, a significantly higher proportion of the performing arts labour force (producers and directors excluded) earn less than \$10,000 per year than do the general labour force. If the performing arts occupations were compared with that segment of the total labour force having an equivalent education or training, this differential might well be amplified.

The Macaulay Commission's recommendation that all professional artists should qualify for unemployment insurance ignores an obvious moral hazard problem while attempting to protect artists from financial hardship. It also does not take into account the psychic benefits which artists enjoy, and which keeps many in the arts labour force. Yet there is reason to believe that the arts market in fact offers artists a 'bet' and it is this which elicits such a strong commitment from artists.

The predisposition to enter a profession where the expected reward is low was once believed to be due solely to ignorance or irrational optimism. Observing that the probability that any individual will ever be qualified for the employment he has been educated for is very different in diverse occupations, Adam Smith was surprised (in 1776) at how many people entered those professions that promised the most uncertain rewards. Make your son an apprentice to a shoemaker, Smith argued, and there would be very little doubt of his eventually earning his living at the trade. Send him, in contrast, to study law, for instance, and the odds would be at least twenty to one that he would ever be proficient enough to 'live by the business.' Yet even in Smith's time professions like law were overcrowded. The main reason, Smith believed, was 'the overweening conceit which the greater part of men have of their own abilities' and 'the absurd presumption in their own good fortune' (Smith 1976, 124).



TABLE 17

Percentage of labour force (men and women, full-time and part-time)

Income (\$)	% of producers, directors	% of conductors, composers, arrangers	% musicians, singers	% dancers, choreographers	% actors, actresses	% total P.A. labour force	% total labour force
\$ ≤ 5000	10.4	29.8	36.9	35.7	32.3	27	22
5 - 9999	10.6	23.4	24.3	31.9	29.1	20	18.1
10 - 14999	14.3	14.4	17.2	13.8	14.1	15.6	18.7
15 - 19999	15.0	6.5	9.0	8.1	7.4	10.7	15.0
20 - 24999	14.0	9.9	4.6	5.2	5.5	8.0	11.2
25 - 29999	12.4	4.0	3.1	2.4	2.7	6.2	6.4
30 - 34999	9.3	2.5	2.0	1.0	2.2	4.3	3.6
35 - 39999	5.8	1.5	1.0	0	1.2	2.6	1.8
40000 +	7.9	7.0	2.3	1.4	5.5	4.7	3.3
	100	100	100	100	100	100	100

SOURCE: Canada Council (1981) *Profile of Arts Employment*.

Since then economists have placed such behaviour in the theoretical framework which postulates that individuals enter uncertain professions despite actuarial disadvantages because they are risk-takers whose marginal utility of income increases as income grows. Consider the case where the expected income,  $Y$ , resulting from a probability,  $(P)$ , of a low income,  $Y_L$ , and a probability,  $(1 - P)$ , of a very high income,  $Y_H$ , is lower than the expected utility from a riskless alternative,  $Y_0$ .<sup>6</sup> The value attached to the expected utility of  $Y$  is greater than the utility derived by the risk-taker from the certain income,  $Y_0$ . Empirical work by Santos (1976) on US data suggests that artists typically have utility functions as just described, since he found that alternative (nonartist) groups with the same average level of formal education had higher earnings than the earnings of performing artists net of the latter's arts training costs. Our figures for Canadian artists in Table 17 suggest a similar picture.

The implication of such analysis is that artist earnings are largely the result of artists' own choices and that these choices are rational. The rationality of the situation is further endorsed by the acknowledgement of the presence of psychic income derived from the pleasure of performing. A policy of giving direct grants to artists, as is done in Canada, cannot therefore be justified by arguments that the labour markets in performing arts are somehow 'special' or predominantly 'imperfect'. A program of subsidies to artists simply to encourage an increased supply of arts activities constitutes a more cogent policy argument. However, as we shall argue, increased supply can often be better accomplished by subsidizing demand. The funding agencies, in other words, might often

be more efficient (from society's point of view) if they enlisted consumers among their direct clients. The subject of consumer subsidies will receive the fullest attention in Chapter 10.

## NOTES

- 1 A similar analysis of the British Arts Council has been carried out by King and Blaug (1976).
- 2 The nine Toronto organizations were: Canadian Opera Company; National Ballet; Tarragon Theatre; Theatre Passe Muraille; Toronto Arts Productions; Toronto Dance Theatre; Toronto Free Theatre; Toronto Symphony; and Toronto Workshop Productions.
- 3 See in particular the OAC Annual Reports for 1967-8 and 1968-9. The 1968-9 report announced plans for a centre for arts research in education which later became arts/education.
- 4 More specifically, a logit model was used. This model has the general form:

$$Z_i = \log \left( \frac{P_i}{1 - P_i} \right) = \alpha + \beta X_i,$$

where

$Z_i$  = the  $i$ th individuals' behaviour expressed as a dummy variable

$X_i$  = characteristics affecting  $Z_i$

$P_i$  = probability that  $Z_i = 1$ .

- 5 See Chapter 8 and Appendix A. Our audience survey revealed that 57 per cent of respondents were taken to the theatre as a child, while 72 per cent had participated in the performing arts as a child.
- 6 The outcome of this analysis does not change if the possible gains or losses are stated as 'success' or 'fame' rather than income.

## 7

# Demand-side versus supply-side subsidies

### REALLOCATION OF EXISTING SUBSIDIES

Whatever the case for raising the total level of public subsidy (and we return to this issue in Chapter 11), there seems to be a strong case for restructuring the allocation. In Chapter 4 we examined the practical and theoretical limitations of lump sum subsidies provided to performing arts suppliers. Despite these deficiencies, public support for the arts in Canada continues to take this form and it is invariably implemented via the arts councils (Chapter 6). In addition to all the criticisms examined so far, such an arrangement brings an ever present danger that the public agencies will be tempted to pursue a quiet or congenial life and develop a special relationship with selected clients. The latter are likely to be 'mature', large, established and with whom it is convenient to have an ongoing relationship. Yet the reasoning (in Chapter 2) on externalities suggests, in contrast, that it would be more appropriate to support the small, innovative and less mature suppliers, just as governments aim to support diverse organizations in industrial research. Nevertheless the Canada Council has, in fact, declared that, because of its frozen budget (in real terms), 'support to new companies, to younger artists, to those on the frontiers of art and communication, has been seriously curtailed' (Canada Council 1979-80, 5). The Council explained that it was continuing to support organizations that had 'achieved stature' and that it was unfortunate that it had to restrict aid to 'those who are developing the fresh ideas and forms without which civilization withers.'

## CONSUMER SUBSIDIES

One policy solution that could help rectify the situation is to switch, at least at the margin, from supply-side to demand-side support. So far, however, the arts councils have given little or any attention to subsidizing the consumers as distinct from the producers of arts services. In our judgement, the time for this innovation has now arrived.

One potential barrier to such a change is the probable reply, especially by the public agencies, that the consumer subsidy proposal is likely to be administratively costly and in any case is largely theoretical or hypothetical because it has not been attempted. The appropriate response to this argument is to scrutinize the available evidence. Consumer subsidies have, in fact, been tried in other countries, and one attempt has indeed been made in Canada. We shall accordingly present an account of experience to date after giving a general description of the demand-side subsidy idea.

The aim, in effect, is to select a number of different 'target' groups such as students or blue-collar workers whose attendance it is desired to stimulate, and, in effect, to give them direct 'coupon' purchasing power that is limited to spending among the individual theatrical groups of their own choice. This plan would imply that theatres and concert halls would charge commercial prices but make a certain proportion of seats available to some defined and selectively subsidized groups of persons. In effect, the target groups would receive seats at substantial discounts when they presented their 'coupons'. The receiving theatres would then present the coupons to the arts council or to foundations for payment.

One of the advantages of this system is that it would allow the beneficiaries to exert some degree of influence over theatre policy. Some theatres, for instance, might use the system to cater especially to the needs of students, ethnic groups, senior citizens, or other 'target' individuals. The theatres, meanwhile, by receiving the special funds this way, would, in fact, become more independent through the diversification of their funding sources. Indeed, from a government perspective, arts councils might be relieved from decisions that they might prefer not to make, and especially from the decision to allocate a limited amount of funds between competing applicants.

## EXPERIENCE IN BRITAIN

One practical plan was introduced in the northeast of Great Britain in September 1968. By 1970 the value of the coupons reimbursed had risen to about £18,000. Entitled 'The Arts North Ticket Guarantee Scheme',



the annual cost steadily rose to £21,000 by 1979. The level of reimbursements corresponded to about 125,000 admissions per year.

The stated purpose of the scheme was to provide incentives to young people to attend artistic events and also to launch a general public-relations exercise on behalf of Northern Arts. The costs of administering the plan consisted of printing (£840), postage (£720), and some secretarial time (unestimated). It seems, therefore, that the administrative costs did not exceed 10 per cent of the annual value of coupons reimbursed.

After thirteen years of operation, the scheme was dropped in 1981 for reasons that are somewhat obscure. Apparently the administrators of Northern Arts ultimately disliked the diversion of limited funds to target consumers and away from individual artists. They argued that, in any case, the demand for coupons had been steadily falling. The reason for this, however, seems to have been the severe reduction of their real value because of inflation. Even by 1981 the value of the coupon was only 20 pence. Evidence for the falling off in usage was produced by way of a survey in a 'test area' between April and November in 1979 and 1980. The survey was objected to by several theatres in the area. For instance, the artistic director of the Tyne Wear Company at the Playhouse, Newcastle, complained that the timing of the survey was inappropriate because it was largely off-season:

Doing a survey over the same period might well indicate that the North-East has no need for snow ploughs during the months of April to November. No wonder we don't use the scheme very much during those dates – we are closed.<sup>1</sup>

The general consensus among managers of theatres was that the plan had been valuable and that it was a mistake to end it. At a meeting of interested arts users in 1980 (which included theatre managers), there was agreement that the consumer subsidy scheme was widely appreciated. The general manager of the Theatre Royal later pointed out that those who attended expressed the desire that the plan be updated and increased.

We thought that the new price ought to be around 40p or 50p and that the age range should be firmly established between 13 and 18 years old.<sup>2</sup>

Although they were ready to discuss the reform of the scheme, the central bureaucracy, Northern Arts, had no informal discussions and just instructed the theatres to terminate it. This decision was made despite

the fact that the Theatre Royal, the Northern Symphonia, the Playhouse and the Tyneside Cinema all reported significant increases in usage among the young. The general manager of the Northern Symphonia expressed particular surprise.

The ticket vouchers work, they are simple and effective and more and more youngsters present them at our concerts. I just don't know what Northern Arts is playing at.<sup>3</sup>

One of the objections by Northern Arts was that the coupons were being used predominantly by school groups. This trend, it argued, was completely contrary to the philosophy of the scheme. Such a conclusion is especially perplexing in view of the fact that most audience surveys show the importance of the education environment in developing an early taste for the arts. The diversion of money that could have gone to individual artists, however, seems to have been the key consideration.

As the Northern Arts director explained in 1980,

The scheme provides an extra bias, in favour of the most heavily supported aspect of Northern Arts' work, namely performances, at the expense of other budgets and especially those intended to support individual artists.<sup>4</sup>

It is difficult, however, not to draw the conclusion that the decision was that of a public arts bureaucracy that was acting in its own self-interest, an interest that (as we have shown) prefers supply-side to demand-side subsidy policies.

#### CONSUMER SUBSIDIES IN THE UNITED STATES

Another scheme, this time operating mainly in New York, originated in 1972 under the sponsorship of the Theatre Development Fund (TDF), a nonprofit organization for the encouragement of work in the theatre. This plan is now (in 1985) well established. Applications are allowed from members of a number of eligible groups such as students, teachers, clergymen, retired people, union members, etc. Such groups can purchase from the TDF books of coupons whose total value is limited by the amount of funding obtained from TDF. The funding comes from the New York State Arts Council plus the National Endowment for the Arts as well as from the conventional private donations handled by TDF.

The coupon originally cost the applicant \$1 and was used in lieu of an admission charge at any Off-Off-Broadway theatre that had requested to be eligible. After a theatre received the coupons, it returned them to the

TDF and received in return for each a larger amount (\$2.50 in the mid-1970s) than the purchase price to the user (\$1). The effect, therefore, was to provide a subsidy (\$1.50) to theatre consumers who were members of the target groups. The TDF was especially anxious to select individual members of minorities in order to help stimulate the growth of new types of theatre that previously had virtually no means of coming into existence. In 1985 the beneficiary paid \$3 for a voucher worth \$5 at the theatre.

A survey of the New York 'coupon audience' in 1974 by Professor William Baumol revealed the success of the scheme, especially in bringing in new audiences from ethnic groups. Special beneficiaries were the black and Hispanic theatres. The other group that was attracted by the arrangement was that of older persons who, hitherto, had felt that their retirement income was insufficient to permit access to conventionally priced performances. Baumol's survey showed that 9 per cent of coupon users were aged 60 and over. This proportion compares with 5 per cent of the normal theatre attenders (Baumol 1979, 47).

One of the conclusions from Baumol's survey was that the program was particularly well-adapted to the dispersion of funds among a large number of highly diverse groups. By the end of its first season, coupons had brought income to over 80 Off-Off-Broadway groups. In the next season it had reached 127 groups.

The fact that the New York scheme has been especially successful with experimental theatres is particularly striking in view of the treatment of such institutions in Canada. As we have seen above, the Canada Council has already declared its decision to 'seriously curtail' support to new companies, to younger artists, and to those on the frontiers of art and communication. Today new theatres have to wait for two years to see if they can survive before they become eligible to apply for grants from the Canada Council.

To repeat, economists have drawn an analogy between subsidies for art and subsidies for industrial research and development. In both cases externalities are created because the invention or discovery of a new idea or experience will result in the copying of the same idea by others who can 'free ride'. Since the creative theatre, like the creative research laboratory, could well provide especially significant externalities in contrast to 'mature' and conservative or repetitive producers, the allocation of subsidies should be especially weighted towards, not against, the former.

As Baumol has observed, there must be some way to provide support quickly to new groups who are specializing in experimental effort before they can establish an extensive record of artistic accomplishment or,

indeed, present extensive financial records. It transpires that the coupon system is well adapted to this requirement:

The mechanism of the standard foundation procedure with its careful case-by-case investigation is simply not adapted to this sort of undertaking. On the other hand, the evidence suggests that the voucher program is able to channel funds quickly and easily throughout this segment of the theatre. (Ibid., 48)

Another feature of the New York plan has been the relatively low administrative cost. The program does not require examination of theatre budgets or extensive evaluation of theatre proposals. The result is that most of the administrative work of the coupon can be left to computers. It has thus proved possible to conduct the program for a total annual cost of \$50,000 to \$60,000. The marginal cost of *extending* usage is also quite small.

The coupon system is, in effect, a quasi-market system, and certainly raises fundamental issues. The more a market mechanism is injected into the field of cultural activities, the more the objectives of the public subsidy or private subvention program might be undermined. Allowing a *full* market allocation would mean that the grants would flow to the productions that were most popular and were least in need of funds. If the program of public funds is conducted on the basis of a merit-good policy, then presumably a process is involved that selects from a hierarchy of cultural activities in favour of those higher on the scale. On the other hand, where no element of market allocation is allowed, theatres are less likely to devote effort to the attraction of audiences and to communicate with them effectively.

A question of efficiency is clearly involved here. First, observe that a coupon system could be quite compatible with a merit-good policy. The public or private philanthropic authorities could initially select from a broad 'menu' of classes of productions of higher artistic value than the average commercial theatre productions. Then, within these higher levels of artistic services, individual coupon holders could exercise their choice. Such choice is likely to reward companies that are efficient (in the eyes of the consumer) and to penalize the inefficient. The result would be an improved level of services.

Within this context the consumer subsidy just described could offer a considerable contribution to the problems associated with attempts to spread cultural experiences over wider geographical locations. One such problem arises when metropolitan opera companies and orchestras are obliged to go on cross-country tours. As Peacock (1976, 81) has observed, such organizations,



like certain local wines, cannot travel and maintain their quality. We all know of cases where we have been led to believe that such organizations on tour will have certain artists appearing, but who somehow or other remember other more pressing (and possibly more lucrative) engagements.

Accordingly, Peacock is in favour of specially designed coupons that will help meet this problem. Thus, the Toronto Symphony's Roy Thomson Hall could have a proportion of its seats filled by an enthusiastic audience from the less populated parts of the province with the aid of coupons that covered, for example, their train fares, in whole or in part, as well as the price of their seats. Some experiment in this direction would at least be helpful and may provide a cultural demonstration effect that might encourage other parts of the country to build their own concert halls and so be able to compete more with Toronto for public money.

It must be re-emphasized that consumer subsidies (e.g., through 'coupons') appear to be a policy tool that is seriously neglected by the arts councils in Canada. And far from being a theoretical plaything of economists, the evidence from the systems described above shows that they work. The program in New York has since spread to Buffalo, Chicago and elsewhere in the United States and has brought support to a large and diverse group of organizations. Baumol (1979, 50) concludes:

the evidence indicates most strongly that it has made life easier for the dispersing organization whose administrative costs have been kept low and which has been spared the distasteful job of arriving at aesthetic judgments it does not care to make and, worse still, of translating those judgments into specific pecuniary figures.

#### THE ONTARIO HALF-BACK SYSTEM

While the consumer subsidies via 'coupons' have not been operated by the arts councils in Canada, some modest development in this direction has appeared under the auspices of the Ontario Lottery Corporation. The Wintario Lottery has been funding a system known as the Half-Back program which offers ticket holders (who are unsuccessful in the lottery) a discount on Canadian cultural products of fifty cents for each one dollar spent on Wintario tickets. This program is, in effect, a consumption subsidy that attempts to foster audience development. The first Half-Back program, which operated between January and April in 1978, provided a rebate towards the purchase of Canadian books and magazines. The second program, which operated between May and September in 1979, provided support to Canadian recordings and feature films. A rebate to a

maximum of \$2 was offered. Canadian records and tapes worth more than \$1.3 million were purchased and some 200,000 people attended Canadian feature films using the discount. Approximately one-and-a-half million Wintario tickets were used for discounts amounting to \$600,000.

The most interesting development from the point of view of our report is the third Half-Back program that operated between July and December in 1981. A rebate to the maximum value of \$2 was offered for admission to selected productions, performances, and, in some cases, subscription series. About 300 companies agreed to participate. Special discounts were also made available to students and to senior citizens.

Clearly, this was a move in the 'right' direction from the point of view of the logic of consumer subsidies outlined above. Some may regard it as paradoxical, however, that a government that is viewed as promoting merit-good policies should sponsor consumer subsidies to change people's taste in favour of the arts by way of funds from a public lottery. To some, a publicly sponsored gambling institution is the opposite of a merit-good program that also might offset the cultural development aspect of the Half-Back system. For instance, a report of an Ontario all-party legislative committee recommended in 1980 that the provincial government consider ending its lottery games, which were seen as 'subtly promoting a gambling ethic.' The committee also criticized the government's aggressive advertising campaigns for Wintario, Lottario and SuperLoto which could 'instill socially detrimental values in lottery players.'

It is likely that such individuals would prefer a consumer subsidy scheme to be handled by some Canadian counterpart to the Theatre Development Fund in New York, an organization that receives grants of public money via public agencies similar to our arts councils. In any case, the Half-Back program would seem too sporadic an occurrence. What is required is an ongoing program. If a consumer subsidy plan were adopted, many of the policy confusions and contradictions in Ontario that were described in Chapter 6 would probably be on a much smaller scale thereafter.

#### NOTES

- 1 'Anger as ticket scheme is axed' *Evening Chronicle* (Newcastle-Upon-Tyne), 2 February 1981.
- 2 Ibid.
- 3 Ibid.
- 4 'The Arts North ticket scheme', David Dougan, Director, Northern Arts, January 1980, p. 3.

## 8

# The characteristics of Ontario audiences

In their survey of American and British audiences for the performing arts, Baumol and Bowen (1966) made the following observation about the typical audience:

In the main, it consists of persons who are extraordinarily well educated, whose incomes are very high, who are prominently in the professions and who are in their late youth or early middle age.

This finding indicated that a large proportion of taxpayers did not directly demand the performing arts and that up to the time of the survey any attempts to diffuse the arts to these voters had experienced very limited success.

The characteristics of demand not only have implications for the relative direction and success of policy but also affect the strength or weakness of normative arguments for government intervention. It is primarily for this reason that we have conducted a survey of theatre audiences in Ontario, although the raw statistics will be of interest in their own right.

Audiences in Ottawa, Toronto, St. Catharines, Hamilton, Sudbury and Thunder Bay were surveyed during October, November and December of 1983. A cross-section sample of 493 returned questionnaires was obtained and the full results are reproduced in Appendix A. We now examine each component and shall begin by focusing on the same variables that Baumol and Bowen surveyed 18 years ago.

## INCOME

The income range of respondents is shown in Table 18. The table shows that at least four-fifths had earnings above the Canadian individual median income for 1983. To be more precise, 79.3 per cent had incomes above \$15,000 whereas the individual median income for Canada was \$10,728. Forty-five per cent earned over \$30,000. Such facts indicate that a substantial portion of audiences are indeed wealthy, and this is similar to the findings of international reports. Drawing from surveys of 70 performing arts audiences in the mid-seventies, the US National Endowment for the Arts found that the median family income of attenders was \$18,983, approximately \$5,000 above that of the entire public.<sup>1</sup>

The performing arts are often depicted as having a demand that is price inelastic and income elastic, a description which implies that government subsidies are not only potentially inefficient but also regressive. An income elasticity above unity tells us that demand for the relevant good will increase by more than one per cent as income increases by one per cent. This is not necessarily the same thing as observing that demanders for a particular good belong to a high income group. There is a strong correlation between income, education and occupation in determining demand for the arts, and to this extent it is not clear at the outset which if any is the dominant explanatory variable. In fact, US findings show that when all three findings are taken into account at the same time, education and occupation, once controlled, predict attendance but income does not (National Endowment for the Arts 1978, 28). And if the performing arts are regarded as an 'acquired taste' that requires some threshold level of consumption skills, we might certainly expect education to assume a more important role. In turn, such a result would have clear implications for policy since today's nonattenders could be attracted more through training in the understanding of the performing arts than through subsidized theatre tickets.

## EDUCATION

Our audience survey revealed that education was also an important feature of Ontario audiences although not quite as important as in the US studies. In its examination of over 70 audience surveys in the 1970s, the National Endowments for the Arts found that, of all the characteristics of individuals, education was the best predictor of his or her attendance. Among attenders of arts performances, 30 per cent had graduate training, 54 per cent had four-year college degrees (as compared to 14 per cent of US adults), 22 per cent had no schooling beyond high school (compared



TABLE 18  
Incomes of the Ontario audience sample (1983)

Range (\$)	Percentage of total
0 - 15,000	21.9%
15,000 - 30,000	30.4
30,000 - 50,000	31.9
50,000 +	15.8
TOTAL	100.0

NOTE: Population median income (1983): \$10,728

to 74 per cent of US adults), and 5 per cent (compared to 38 per cent of US adults) had not completed high school (*ibid.*, 2). Table 19 shows that among respondents in our audience survey, 67 per cent had university or graduate school education, which compares with 8 per cent for the population as a whole, and with 29 per cent for the Ontario adult population that we interviewed over the telephone in a separate survey (presented in Appendix B). Furthermore, 25.5 per cent had a high school diploma or less in our audiences compared with 84 per cent in the total population and with 55 per cent in the adult population surveyed by telephone. Even though the results obtained in our telephone survey indicate higher education levels than what exists for the total population, they do not disprove the tendency for arts audiences to be well educated relative to the general public.

We asked our audience respondents for their parents' educational level as well as their own. This information, along with questions that asked whether or not the respondents had been exposed to the performing arts as children, helps to define the magnitude of peer group influence. It is important to realize that formal education is only part of any individual's human capital. Although in terms of formal education only 16.5 and 25 per cent of the audience respondents' mothers and fathers respectively had one or more university degrees, just over half of the sample (52 per cent) were taken to the theatre as a child by parents or by their school on average at least once a year. An even larger 72 per cent participated as children in a performing art (e.g., through school drama, dance or study of a musical instrument). These findings support the argument, and similar evidence elsewhere,<sup>2</sup> that exposure to the performing arts at an early age and not just the attainment of relatively high educational levels alone is important in forming future preferences.

TABLE 19

Education of the Ontario audience sample (1983) and general public (1984-5)

Highest level	Respondents' per cent of total			
	Audience survey	General <sup>c</sup> public survey	Mothers' per cent of total	Fathers' per cent of total
Under 4 years high school	5%	28%	40%	45%
High school diploma <sup>a</sup>	20	27	32	23
Community college	7	16	11	7
University <sup>b</sup>	41	23	13	15
Graduate	27	6	4	10
	100	100	100	100

<sup>a</sup> This was the highest level for 84 per cent of the Canadian population in 1983.

<sup>b</sup> This was the highest level for 8 per cent of the Canadian population in 1983.

<sup>c</sup> These figures were drawn from a telephone survey of 463 adults resident in Ontario. For more details, see Appendix B in this volume.

## OCCUPATION

In the American studies of audiences in the 1970s, one of the most striking findings was the very high percentage of professionals among attenders and the very low percentage of blue-collar workers. Professionals made up 56 per cent of employed persons in the audiences but were only 15 per cent of the employed workforce; blue-collar workers make up 4 per cent of employed persons in the audiences but 34 per cent of the employed workforce. (National Endowment for the Arts 1978, 1-5) Teachers (including those at the college and university levels) were especially numerous professionals, comprising 21 per cent of the attenders overall but only 4.1 per cent of the workforce. Among other occupations, managers also had higher percentages in the performing arts audiences than in the workforce, though not nearly as high as professionals. In addition, students were high attenders. Retired and unemployed individuals, however, were consistently low in relation to their share of the population (*ibid.*).

It is remarkable how similar the above results were to the facts revealed by our own 1983 survey of Ontario audiences. Table 20 shows that a relatively high proportion – 27 per cent – of respondents were found to be in executive/managerial positions, despite their comprising only 7 per cent of the Ontario population as a whole. Another 25 per cent of the audience sample was made up of teachers, professors or students. Teachers and related occupations, however, account for less than 4 per

TABLE 20  
Occupations of the Ontario audience sample (1983)

Occupation type	Per cent of total
Executive/managerial	27.0
Teacher	13.6
Professor	3.0
Student	8.1
Housewife	8.1
White collar	17.0
Blue collar	1.4
Retired	3.0
Other	17.2

cent of the Ontario population. White collar workers, meanwhile, accounted for 17 per cent while blue collar workers only 1.5 per cent of total respondents.

#### AGE

One striking feature of our audience survey's age breakdown was that only 2.5 per cent of the Ontario audiences were under 20 years old (see Table 21). Again, international experience is similar: the US audience studies, for instance, found that, for the performing arts, the age of attenders under sixteen was negligible.

#### GENDER

The US audience studies found that women participate in arts audiences in proportions modestly greater than their share of the public as a whole. However, the gender rates were found to vary extensively from audience to audience. For example, the female percentage of performing arts attenders ranged from 42 to 69 per cent (National Endowment for the Arts 1978, 15). In our survey of Ontario audiences, females comprised 58 per cent of the total audience.

#### PRIVATE CONTRIBUTIONS

Our survey asked certain questions regarding the audiences' financing of the arts that, as far as we know, have not previously been posed. We elicited the interesting fact that, of those surveyed, 30 per cent donated some portion of their personal income to the performing arts. This figure can be compared with American data which shows that roughly 40 per cent of those who attend the live performing arts contribute at least occasionally (Hansmann 1981). This phenomenon of audiences 'paying twice'

TABLE 21  
Age of Ontario audience sample (1983)

Age (years)	Per cent of total
0 - 20	2.6
20 - 30	20.1
30 - 40	29.6
40 - 50	29.1
50 +	20.9

— once by their ticket purchase and once by a separate donation — is, on the face of it, rather curious and has not hitherto been sufficiently recognized or examined in Canada. Some analytical implications of the situation have already been explored in Chapter 4.

#### AUDIENCE PERCEPTIONS OF COST AND SUBSIDY

It is easily accepted that a voter who is uninformed, especially about the cost to him or her personally (through taxes) of government projects, may make significantly different decisions from a fully informed voter. Similarly, demanders of the performing arts behave according to their knowledge of the supply and prices of those agents involved in its provision. It is useful to know, therefore, to what extent audience members are accurate in their perceptions of the real absolute costs of producing a show and of the amount of any 'income gap' that is funded by a government subsidy. Table 22 shows that 40 per cent of the audience estimated that at least half of the average cost per seat per performance was covered by their ticket price, while about 26 per cent estimated it to be covered by less than half. The remainder claimed to have no idea.

It is clear from Table 23 that the majority of those who had a view on the subject were in error in supposing that their ticket price covered at least half the average cost of the performance. Assuming that total revenue equalled total cost in 1981, the figures in the table show that ticket sales in actuality covered to only 39 per cent of costs in Ontario.

It will also be seen from Table 23 that in Canada, government subsidies covered 42 per cent of costs or about 60 per cent of the costs remaining after the ticket revenue contribution. Our survey showed that nearly a third of the respondents had no idea of this proportion while at least another 40 per cent were in error with regard to it.



TABLE 22

Audience perception of proportion of cost of each seat covered by ticket price

Policy priority	Per cent of total
All	2.0
At least 3/4	12.0
At least 1/2	23.0
At least 1/4	17.9
Less than 1/4	7.9
No idea	28.0

TABLE 23

Performing arts, per cent per capita revenue by source for 1981

	Ontario	Canada
Private	13	14
Municipal	5	4
Provincial	9	17
Federal	18	21
Other earned	9	13
Ticket sales	39	31
Total	100	100

SOURCE: Macaulay Commission (1984) Table 5.

Our findings suggest, therefore, that among the attenders of performances there is poor knowledge of how the arts in Ontario are financed. The Macaulay Commission (1984, 3/8) reached the same conclusion about the general public (which includes the nonattenders). It would seem, however, that the coefficient of ignorance is greater vis-à-vis the general public at large. The Macaulay Committee reported that 22 per cent of the general public believed that theatre groups were self-supporting. In our sample (of attenders), only 5.5 per cent thought the same.

#### AUDIENCE PREFERENCES IN POLICY

When given five arts policy options, those audiences surveyed by us indicated the following preferences for what should be government's top priority: 20.5 per cent were mainly in favour of improving the quality of an optional number of large companies; 14 per cent wanted lower prices; 12 per cent advocated increasing the number of companies; 6 per cent supported the improvement of facilities. However, more – 39 per cent –

selected increased exposure of the performing arts to schools as the most important policy.

#### AUXILIARY SPENDING

Recently it would seem that arts organizations and supporters have increasingly cited the economic impact of performing arts as a justification for expanded funding. Part of this analysis tends to focus on spending associated with visits to a performing arts forum. The following activities are usually included in such an argument: dining out; drinks; visits to museums or galleries; auxiliary purchasing of associated items; purchase of future tickets. Of those surveyed, 55 per cent said they included dining out as part of the evening's entertainment; 39 per cent had drinks; 4 per cent visited a museum or gallery; 8 per cent made associated purchases; and 9 per cent bought future tickets.

So much for the opinions of the users of the performing arts productions. What is called for next is a similar survey of the opinions of both users and nonusers, the latter category comprising the bulk of the providers of tax revenues that go towards the various government subsidies already mentioned. The next chapter will address these issues.

#### NOTES

- 1 National Endowment for the Arts (1978). Note that our questionnaire surveyed individual income rather than family income thus, our reported figures are underestimates compared with other surveys.
- 2 For similar findings see Ontario Arts Council (1974) 'The audience for the arts'; the Macaulay Commission (1984) Report.

## 9

# Measuring external benefits

In justifying government subsidies to the arts, the externality argument is potentially the most persuasive in reconciling the apparent disparity between those who pay and those who benefit. If there are external (indirect) benefits which accrue to society as a whole from the performing arts, it is possible that many members of society may derive sufficient utility from them to merit government intervention without ever actually attending the arts themselves. The government would then provide a means of extracting payment from those who benefit indirectly as well as directly from the arts.

Although postulated external benefits such as artistic innovation and feelings of national pride have already been discussed in Chapter 1, it is not sufficient to simply define or assert their existence. Many normal goods can be shown to have external benefits that do not call for payment and are disregarded at the margin in the private market. If, for example, A consumes fruit regularly, he may be less likely to suffer from diseases that can be communicated to B and C. There may be no need, however, for the latter to subsidize fruit prices if A is already eating sufficient quantities in the pursuit of his purely private benefits. Generally, when the case for government subsidies is made, the issue is really one of magnitude: do the social benefits exceed the social costs *at the margin*? We are thus faced with an empirical question: would individuals on their own purchase artistic activities in sufficient quantities (like fruit) so that further inducement for marginal increases are not necessary (and externalities are inframarginal)? The problem of obtaining an answer to this question empirically is the main subject of this chapter.

## ECONOMIC IMPACT STUDIES

Some existing empirical measures of external benefits relating to the economic stimulus of the arts are being used increasingly as evidence in support of public subsidies. The notions that tourists and businesses are attracted to cultural environments, that individuals attending theatres will combine their visits with ancillary spending and that the arts, which are characterized by labour-intensive organizations, provide valuable jobs, have all been put forward to suggest a significant economic impact from artistic activity. Empirical studies to examine this kind of proposition have been conducted in the United States by the National Endowment for the Arts (1981). A formal model that specifies the relationships to be tested has been produced by Cwi and Lyall (1977). These kinds of investigations apparently have had some marginal effect in persuading politicians in the United States that the arts industry is more significant to the local economy than was at first believed. Such studies, nevertheless, have not yet given an adequate answer to the proposition that, in the absence of the arts industry, other economic activity might make equivalent or better use of the freed resources. Moreover, as Seaman (1984a) observes, the direction of causality is often confused because, for instance, the tourist economy might often pull along the arts and not vice versa.

Economic impact studies of the arts are often sponsored by parties who have an interest in the outcome. Seaman (1984a), for instance, refers to the 'excesses of self promotion that characterize many of these impact studies.' In Canada, the arts councils and the Canada Council now appear to look with enthusiasm on this kind of investigation. Thus the research director of the Canada Council has just estimated (Chartrand 1984) that as the total revenue in 1980 from the arts industry was \$7 billion, if the Gross National Expenditure Multiplier of 2.1 is applied, the income multiplier effect of the Canadian arts industry was at least \$14.7 billion in 1980 or approximately 5 per cent of the Gross National Expenditure. If every industry in turn did a similar calculation, we would have a grossly overdetermined GNP!

The multiplier effect, of course, works only on the assumption of unemployed resources and this assumption is only rarely discussed or made explicit. In any case, even if one can accept the huge multiplier effect of the arts industry just referred to, this would have nothing to do with an argument for further government support. To raise another million dollars from taxes in order to finance further subsidies to the arts means that persons who pay more taxes now will spend less on other things. There is no guarantee that this initial reduction in spending will not



exactly offset the 'increase' in spending caused by the new public subsidy increase.

The 1984 Macaulay Report for the Ontario Ministry of Citizenship and Culture is similarly enthusiastic about the general economic impact of arts activities. It declares that: 'The arts, particularly the performing arts, have created a well-defined multiplier effect upon the surrounding economy' (Macaulay Commission 1984, 1:4/4). It is explained that all kinds of businesses benefit from the arts, and these range from set and costume manufacturers to restaurants and hotels. The report contends that the argument that these ancillary businesses would exist anyhow is unproven: 'The fact is that they come into being or unquestionably expand because of the presence of arts institutions, organizations and activities' (ibid.). The argument that the Macaulay Commission has still to meet, however, is not that such ancillary businesses 'would have existed anyhow' but the proposition that, insofar as the arts industry had not emerged, the available economic resources would have been spent on some alternative industry which would have stimulated its own ancillary businesses. Indeed, economic impact arguments are dangerous for arts advocates because, if faced with the choice between, say, a 'culture centre' or a domed baseball stadium, one suspects that plausible arguments would be produced to show that the economic impact of the latter would be greater.

#### MEASURING THE WILLINGNESS TO PAY

The area under the private market demand curve and above the price line for some normal good is defined as the consumer surplus. This describes the net sum of what consumers would actually pay for a good over the market price. In other words, it is a measure of net willingness to pay (WTP).

To the extent, however, that some commodity displays public good characteristics, there will exist additional 'joint' demand curves which must be summed vertically, thereby increasing the overall consumer surplus at the given price. These demand functions would reflect the WTP, at least for many members of society, for both internal and external benefits, and could be compared to the explicit and implicit costs of public provision. The literature contains a small number of such measures of the WTP for the arts. Gapinski (1984), for example, attempts to determine whether the benefits of the public patronage going to the Royal Shakespeare Company in England exceed its cost. He calculates the benefits from public subsidy as a gain in real consumer surplus of 900,204 which exceeds the real costs of patronage of 761,937, giving a benefit/cost ratio of 1.18. He concludes, therefore, that the subsidy more

than 'pays' for itself and is therefore justified. Unfortunately, there are some important omissions in Gapinski's analysis.

#### DEADWEIGHT LOSSES FROM TAXATION

It is well known that in the real world a perfect (neutral) tax system does not exist. Imperfect tax institutions, meanwhile, entail deadweight loss and, following Stiglitz and Dasgupta (1971), Atkinson and Stern (1974) and Browning (1976), this leads to a modification of Samuelson's rule for optimum public good supply. Whereas Samuelson requires that the sum of marginal benefits equal conventional marginal costs, the presence of deadweight loss dictates that the former should exceed the latter by some appropriate magnitude.

Usher (1983) has shown that the logic of this modification to the Samuelson rule requires a fundamental reorientation of benefit/cost analysis. Usher argues that because of deadweight loss from taxation, a public sector project should be undertaken if and only if the ratio of benefits to cost exceeds a certain parameter,  $S$ , that depends on the prevailing tax structure. He shows that:

$$S = \frac{1}{1 + \tau \varepsilon}$$

where  $\tau$  is the tax rate and  $\varepsilon$  is the price elasticity of demand for goods. He also demonstrates that  $S$ , the private cost of public funds, is greater than 1 because the price elasticity of demand,  $\varepsilon$ , is negative. On this reasoning Gapinski's benefit/cost ratio of 1.18 will not pass muster until it can be shown to exceed  $S$ . This leads of course to the question of what magnitude of  $S$  to apply.

#### APPROPRIATE ESTIMATES OF DEADWEIGHT LOSSES

Browning (1976) produced an estimate of  $S$  (in the US) of 1.16. If this were appropriate for Britain, Gapinski's benefit/cost ratio of 1.18 would only just pass. There are reasons, however, to believe that the relevant  $S$  parameter is much greater for Britain than for the United States. First, the tax rate (representing the proportion of the GNP taxed) is larger in Britain than in the United States. If we assume similar price elasticities of demand for goods ( $\varepsilon$ ), then the denominator in the equation above is increased by the larger  $\tau$  for Britain. The result is a higher  $S$  factor for Britain than for the United States. Second, Usher's (1983) analysis demonstrates a wider range of influences upon  $S$ , including the extra welfare costs of tax evasion and tax collection. The latter, in fact, turn

out to be quite significant in his empirical estimates. Incorporating all these considerations, Usher has estimated an  $S$  factor for Canada (which is a closer comparison for Britain) of 2.19. If applied to Gapinski's case study, such a figure would unambiguously reject his empirical benefit/cost claim. But having obviously underestimated costs (by his neglect of deadweight loss), he may also have underestimated demand, as we demonstrate below.

#### THE MEANING OF PATRONAGE

As already stated, the public good nature of the arts requires a system of vertically added demand curves. Gapinski derives his social demand curve, from data relating to market (i.e., ticket) information exclusively. But if Royal Shakespeare Company productions are public goods, then some account must be taken of benefits derived indirectly by nonusers as well as users. If significant at the margin, these public good considerations would generate higher demand curves and thus a greater WTP than Gapinski has calculated.

Further to this point, the term patronage strictly includes private as well as public 'donors'. As we showed in Chapter 4, the private portion of subsidies to the performing arts can be characterized in a joint supply model, thus implying additional demand curves that must be summed vertically to obtain total demand.

Gapinski's results, then, are ultimately inadequate because his model contains underestimates of both cost and demand. We have given some broad numerical measure to the degree of cost (deadweight loss) underestimates. Empirical assessment of the 'external benefit' demand functions is the next requirement. But we need to approach this task gingerly; it is fraught with difficulties, as we shall see.

#### SURVEY ANALYSIS

A central problem is the absence of an efficient demand revelation process, requiring some way of measuring WTP as defined by the system of social demand curves described above. The standard view in economics is that no such measurement can be made, since the only possible means of obtaining this information is to ask self-interested individuals about their personal valuations of the good in question. The free-rider hypothesis predicts that individuals will not reveal their true preferences if asked by survey techniques and instead will answer strategically. But in any case, those who apply Musgrave's conception of the merit good to the arts would reject the idea of asking individuals to reveal their WTP through questionnaires. And this would be so even if

truthful answers could be safely elicited. Merit good advocates would insist that nonattenders of the arts are merely consumers with 'wrong' tastes and that questionnaires designed to ask how they would be willing to pay would only reflect the same inferior preferences.

Merit good proponents, however, might be sensitive to the fact that the public finance of theatre, opera and ballet appears to involve a particularly regressive tax incidence. Low-income nonusers are compelled to pay taxes to finance the entertainment of high-income and well educated theatre-goers. Merit good advocates would typically reply that the nonusers 'probably' enjoy external benefits from the arts. Baumol and Bowen (1966), for instance, suggest that the low-income taxpayers who obtain no direct benefits enjoy such spillover benefits from the arts as 'the feelings of national pride.' But this possibility can only be *suggested* by them. The direct way to verify the proposition, presumably, would be to consult the taxpayers in question; when it is a matter of their 'feelings' then evidently they alone are the sole authorities able to give the true information. The merit-good advocate's objection to surveys (questionnaires) is therefore without foundation when it comes to that part of his argument that postulates *external* benefits. Consequently, to such an advocate it should be legitimate to consult the public at least on *this* matter. This leaves us with one remaining concern: the general efficiency and technology of the survey methods themselves.

Although traditionally prejudiced against surveys, economists have recently begun to show more serious interest in them, especially as a means of estimating the WTP for public goods. Loasby (1976) argued the point thus:

A group of biologists studying the behaviour of larvae feeding on potato plants had no doubt that they could do much better if they were able to administer questionnaires to their subjects, and were astonished that economists would wilfully deny themselves the use of such evidence.

Since Clark (1971) developed his model of a preference revelation process, there has been a continuing effort to create a practical methodology. Accordingly, some progress has already been made. Brookshire et al. (1983) have provided further support for the questionnaire approach by constructing a test which compares survey analysis to hedonistic pricing. They applied both a household survey and a measure of relative property values to an empirical study of air pollution in metropolitan Los Angeles. The results of their test showed the survey measure of WTP for clean air to be a good estimator.



A small number of studies, meanwhile, have been undertaken in the arts. The most recent in Canada was commissioned by the Special Committee for the Arts in Ontario that was chaired by R. Macaulay (1983). The Access Survey Research Corporation was hired by the committee to carry out the survey. Among their objectives, it was stated that they wished 'to reveal public willingness to support more and better artistic and cultural events and programmes through higher taxes' and 'to measure perceived levels of government support for the arts' (Special Committee 1983, vol. 3). To this end the general public were asked the following questions:

- 18(a) How much of every 100 provincial tax dollars do you think goes towards support of the arts? Would that be:  
(READ LIST)

\$20 or more

\$10-19

\$ 5- 9

\$ 1- 4

Less than \$1

Not sure

Not stated

- (b) In fact, less than \$1 of every 100 provincial tax dollars goes toward support of the arts. Would you be willing to pay (READ EACH AMOUNT) more in taxes per year if you knew the money would be used to support arts and cultural activities and facilities or would you not be willing to do that? (Ibid.)

This portion of the survey showed, first, that people seemed misinformed about the extent to which their provincial tax dollars supported the arts. In fact, 51 per cent of the sample population believed that at least 1 per cent of provincial taxes was channelled to the arts, while 18 per cent were unable to express an opinion. In response to the second question (about WTP), the survey states:

Once informed, fully 77 per cent of respondents indicated their willingness to accept a tax increase of from \$5 to \$25 annually to support the arts. . . . This is the strongest indication we have of the level of support for the arts in Ontario, but it is based on an informed public.

It should be obvious, given the preceding discussion, that there are several difficulties with this analysis. A central problem arises from the structure and presentation of the questions. In conducting a survey of the general public, the 'interviewer' must be sensitive to the general level of information and understanding possessed by respondents. Consequently, the choice of words, length of questions and the use of concepts to provide information must be undertaken with great care. To ask for an estimate of spending per hundred provincial tax dollars presumes an unrealistic knowledge of taxation on the part of the respondent. Hence, a significant portion (18 per cent) were unable to answer. It would be interesting to know what percentage of the population was unable to answer the second question. Furthermore, terms such as 'the arts' should be avoided in questioning of this nature. What the 'arts' consist of is left for each individual to interpret, and responses may be affected by the different understandings of exactly what is being supported.

On another issue, it is important that respondents do not believe there is a 'right' answer to a question. Otherwise, there is an incentive to choose a response that the interviewer is perceived to favour. More generally, it would be more appropriate to ask people their valuations based on the aggregate of federal, provincial and municipal government funds spent on the arts. The public perceives current provision of arts at this triple support level; they do not usually see an arts provision that has been assisted by the provincial government exclusively. Accordingly, members of the public are probably more interested and aware of their total tax liability for the current level of arts.

A more serious problem stems from the attempt to use an assisted question to measure WTP. Consider again the assistance given to the respondent in the form of the statement that, 'In fact, less than \$1 of every 100 provincial tax dollars goes towards support of the arts.' Through the use of this phraseology, the interviewer has portrayed an image of very small-scale support. If the question had been phrased (as it could have been), 'In fact, more than ten million dollars in provincial tax dollars goes towards support of the arts,' we might expect a completely different result to that reported in the survey.

In addition, there is a starting-point bias in both questions, as the interviewer in each case reads values starting at \$20 or \$25 and then decreasing. This will tend to bias responses towards the upper bounds. Finally, there is no means of controlling for strategic bias. As discussed earlier, a system is required to counter the incentive to understate or overstate preferences falsely.

## BALANCED DISTORTIONS

An important element in countering strategic bias in surveys has resulted from work by Bohm (1979). He proposes a liability-nonliability interval method which is designed to lay bare and amplify any strategic bias that exists. One sample is asked their WTP for some public good on the understanding that their taxes will be adjusted so as to make them liable for their decision. Another sample is asked their WTP on the understanding that their tax liability will not change. The consequence is a deliberately created incentive to understate preferences in the former sample and to overstate preferences in the latter. The interval between the measures of central tendency for each sample will therefore define a more plausible range of WTP.

An application of this method to the performing arts was carried out by Throsby and Withers (1983). Surveying a sample of 827 individuals in Sydney, Australia, they posed the following questions:

- What is the maximum you would want paid out of your taxes each year to support the arts at their current level if your taxes were adjusted so that you would actually have to pay the amount you nominate?
- Now suppose there would be no change in your total taxes; what is the maximum you would want paid out of your taxes each year to support the arts at their current level?

The questions were asked first of all with no information given about the actual amount people paid in taxes, and then were repeated after people were told an average tax liability based on household income. The results of this survey are contained in Table 24.

The table indicates at the outset a marked excess demand for the arts given the actual per capita public expenditure in Australia, which is approximately six dollars. Throsby and Withers favour the median value of central tendency and the 'informed' response as a more 'considered opinion'. This suggests a WTP for the arts of between eighteen and twenty dollars. This is clearly the lowest possible estimate given the results. The median value is particularly useful in eliminating bias from extremely high or low responses. Further, the authors note that the median voter theorem predicts that this group will dominate political outcomes, and in previous work they have found the median value to be superior in explaining state and local subsidies to the arts in Australia.

More generally, the results confirm the expected strategic bias in responses and bias relating to the levels and nature of information given in

TABLE 24

Willingness-to-pay (WTP) responses (\$ Australian per year)

	No liability			Liability		
	Mean	Median	SD	Mean	Median	SD
Noninformed on prevailing tax liability	221.3	50.5	518.9	144.2	49.8	366.3
Informed on prevailing tax liability	154.8	20.2	509.6	96.7	18.2	333.3

the questioning. Consequently, the often-quoted results of public opinion polls cannot be recommended as accurate tools for analysts or implementors of public policy.

Although many of the problems relating to survey methodology have received proper attention by Throsby and Withers, they admit that 'the major problem that was not controlled for in the survey reported was the hypothetical nature of such investigation by private researchers.' The possibility that hypothetical answers cannot elicit true preferences is a major criticism of survey analysis. However, as already mentioned, work by Brookshire et al. in 1983 rejects this view. More intuitively, there seems no particular incentive to give inaccurate responses when individuals are quite able to refuse the interview. The fact that respondents may perceive their views to have little or no weight is likely to induce true preferences and to reduce strategic bias rather than encourage false or inaccurate responses.

Another potential criticism which may affect the validity of survey results is an implicit adding-up problem in respondents' evaluations. Given that government expenditure ranges over many areas and that consideration is not given to these areas in asking the WTP for the arts, individuals might be expected to overstate a WTP for almost any area of expenditure when asked in isolation. Throsby and Withers, however, attempted to adjust for this possibility. Individuals in the same sample were asked whether they thought the average level of support for the arts per adult should be raised, lowered, or maintained, after information on per capita average tax liability for the main areas of government expenditure (including the arts) was given. In all, 72 per cent of respondents favoured an increase in arts outlays and of these, 80 per cent preferred reductions in other government outlays rather than increased taxes. More specifically, social services and defence were preferred as 'cutbacks' by 68 per cent of those favouring reductions in government expenditure.



The mean level of funding suggested by those in favour of an increase was \$43 per capita.

#### WILLINGNESS TO PAY IN ONTARIO

Between November 1984 and February 1985 we conducted a similar survey by telephone in Ontario. Our sample consisted of 463 respondents from Toronto, Windsor, Sudbury and Ottawa. Our questionnaire, which contained 25 questions, is reproduced as Appendix B.

The preliminary to question 8 explained that in 1981, each adult in Ontario paid an average total of \$3.35 a year in taxes towards supporting the current level of drama, dance, classical music and opera in the province. The question and responses to it are reported in Table 25.

Approximately 6.5 per cent of the respondents were in the 'don't know' category. More than 50 per cent of the remainder were of the opinion that present expenditures are 'just right'. Clearly, the median opinion was located in this group, although there was a significant minority that thought 'too little' was spent.

The 'dissatisfied' respondents who believed a public expenditure of \$3.35 per adult was too little or too much were next asked to state what they thought would be an appropriate amount by which to increase or decrease. The results are reported in Table 26. It shows that the median opinion is located in the preferred expenditure category of \$6-\$9.

To place some perspective on our findings on the performing arts, we asked about Canadian public expenditure on culture generally. The preface to our question (question 18) went as follows:

I'd like to read you a list of things which Statistics Canada have included in their definition of culture. They include art galleries, museums, books and publishing, painting and sculptures, film, records and cassettes, crafts, multiculturalism, public archives, libraries, TV and radio, and heritage.

I'd like you to think now about this *whole package* of cultural activities. In 1981 it cost each adult in Canada an average total of \$128 a year in *taxes* to maintain these activities at their 1981 levels.

The following question and responses are reported in Table 27.

TABLE 25

Question	% response
Do you think that \$3.35 a year in taxes is:	
Too little	39.0
Too much	5.5
Just right	49.0
Don't know	6.5

TABLE 26

Taxes per adult preferred by 'dissatisfied' respondents

Amount stated (\$)	% response
0 - 2	8.0
3 - 5	27.5
6 - 9	31.0
10 - 14	19.0
15 - 19	5.5
over 20	9.0

TABLE 27

Question	% response
Do you think \$128 is:	
Too little	24
Too much	21
Just right	55

Compared with the answers to the question about the \$3.35 per adult spent on the performing arts (see Table 25), these responses were, as expected, much more conservative. The proportion believing too little is spent was 24 per cent compared to 39 per cent of the respondents to the performing-arts expenditure question. The proportion of those of the opinion that too much is spent is now 21 per cent or about four times as many as for the performing-arts question. The majority, as before, believed that expenditures are 'just right'.

As with the question reported in Table 26, dissatisfied respondents were given the opportunity to state their preferred for an increase or

decrease in tax-financed government subsidy for culture, and the results are reported in Table 28. The median member in Table 28 is located in the category of the \$130-139 range, suggesting that a majority exists in favour of some increase in tax spending on culture.

Given the danger of strategic bias and the other problems associated with preference revelation, the survey design we chose enabled us to apply the liability-nonliability internal method of measuring WTP as proposed by Bohm. 'Dissatisfied' respondents both in the case of the performing arts and for culture in general were split into two subsamples according to assumed tax liability. Members of the A sample were asked what they believed was the appropriate sum on the understanding that their taxes would not be adjusted by the amounts stated. Members of the B sample, in contrast, were asked the question on the stated assumption that the total amount of taxes they paid would go up or down corresponding to the increases or decreases they requested. The results of the Bohm test are recorded below in Table 29. The result of the Bohm test for the performing arts revealed no obvious strategic bias. Nevertheless, the result suggests that, of those who indicated that \$3.35 per year in taxes was 'too little', a majority were willing to pay between \$6 and \$9 per annum. While this is an increase of between 79 per cent and 168 per cent, our findings are in contrast to those of the Macaulay Committee which reported that 'once informed, fully 77 per cent . . . indicated their willingness to accept a tax increase of from \$5 to \$25.' Remember that almost half of our respondents favoured no increase. One reason for this might be that we informed them of the relevant tax contributions for the arts already being paid via the federal and municipal governments *as well as through the provincial government*. Another probable reason is the smaller potential in the phraseology of our question for encouraging the kind of biases mentioned previously concerning the Macaulay Committee's questionnaire.

One possible explanation for the lack of strategic bias is the perception of \$3.35 as being relatively small. An individual respondent may be quite willing to accept being taxed at a sum less than the cost of a six-pack of beer, even though he is a nonuser and regardless of the total government expenditure in this area.

On this basis, our question regarding culture in general was expected to provide a larger interval of bias given the less 'trivial' sounding tax payment of \$128 per adult. Table 29 shows that this indeed was the case, with a WTP of \$140 to \$149 in the nonliable sample and \$90 to \$109 in the liable sample. The actual 1981 payment of \$128 lies virtually in the centre of this interval, and 55 per cent of the respondents indicated that \$128 was just right. This result tends to confirm the belief that current

TABLE 28  
Taxes per adult preferred by dissatisfied respondents

Amount	% response
0 - 29	10
30 - 59	5
60 - 89	16
90 - 109	13
110 - 129	2
130 - 149	12
150 - 169	13
170 - 200	28

TABLE 29  
Willingness-to-pay (WTP) responses (\$)

	Performing arts median range	Culture median range
Sample A (nonliable)	\$6 - 9	\$140 - 149
Sample B (tax liable)	\$6 - 9	\$90 - 109

government spending on culture is financed by tax revenue such that social benefits, both internal and external, are now equal to the social cost of culture at the margin.

To place some perspective on the criticism that individuals might be expected to overstate WTP for any good in isolation, we next placed both the performing arts and culture in the context of a wide range of public expenditures. To give respondents an approximate idea of their costs, they were informed that in 1981 each adult in Ontario paid annual taxes (from and to all government levels) on average of \$650 towards education, \$15 towards pollution control, \$7 each for housing and tourism, \$30 for police, and \$11 towards recreation. Having offered this perspective, respondents were again asked their attitudes about increasing/decreasing the \$128 public expenditure on cultural activities in general if it meant an increase/decrease in other services such as those just mentioned. The sample was again split: Sample A was asked the question with regard to the performing arts while Sample B was asked it with regard to culture. Those in favour of an increase amounted to 34 per cent of Sample A and 15 per cent of Sample B, while 44 per cent of Sample A



and 51 per cent of Sample B favoured a decrease. Twenty-one per cent of Sample A and 33 per cent of Sample B wanted no change, and the remainder expressed no opinion. On the whole, the result appeared to be a still more conservative attitude than before. In addition, the contrast between responses relating to performing arts and culture preserved the result of a downward tendency in the WTP for culture relative to the performing arts.

#### EVIDENCE ON EXTERNAL BENEFITS

Questioned on whether or not they had been to a live performance of a play or to a classical music concert in the last year, 61 per cent said no and 39 per cent said yes (see question 2 in Appendix B). Asked about dance or opera (question 3), 80 per cent said they had not been to a performance while only 20 per cent said they had. Clearly, the direct 'users' of the performing arts are a minority.

This finding immediately raises the question of why a majority reports that it is in favour of having itself taxed to finance theatres it does not use (see Table 25). The most rational answer that one could expect would be in the form of one or more perceived external benefits. In the light of this, we asked those who had reported themselves as nonusers of the arts (in both questions 2 and 3):

Since you personally do not go to live performances of drama, dance, classical music or opera, what benefits, if any, do you feel you get from these things in return for paying taxes towards them?

The answers to this question (question 12) were sometimes in a form that could generally be categorized as an external benefit.<sup>1</sup> The different categories together with the number of responses are reported in Table 30.

The findings in Table 30 thus provide some testimony of the appreciation by the public of external benefits. The evidence, however, cannot be described as particularly strong in view of the 40 per cent who stated that they perceived no benefit. Since, moreover, the majority were not in favour of an increase in public expenditure, this would suggest that all external benefits have already been internalized or, in other words, that no marginally relevant externalities remain.

The relationship between these findings and the question of equity between users and nonusers and between rich and poor will be explored in the next chapter.

TABLE 30

Estimates of 'external benefits' from the performing arts reported by taxpaying nonusers

External benefit	% response
Brings business to the area	2
Anticipated future use	20
National pride	7
Welfare of future generations	11
Educational importance	7
Other	13
No benefit perceived	40

## NOTE

- 1 The form of this question contrasted with the methodology used by Throsby and Withers (1983) in a similar test. Their respondents were prompted with statements such as 'The success of Australian painters, singers, writers, actors, etc . . . gives people a sense of pride in Australian achievement.' Respondents were then asked if they agreed or disagreed. In our survey, interviewers did not offer suggestions as to the type of benefit a nonuser might enjoy, but instead left it up to each individual to mention any benefit that came to mind.

## 10

# Issues of equity

Government intervention in many areas of the economy is often argued to be justified if it leads to some rectification of inequities in the existing distribution of income in society. The question now is whether the performing arts fit into this category. If so, the contention would be that public expenditures on the arts raise the real incomes of the poor, just as they are often argued to do in the context of housing, welfare and education.

### 'PERVERSE' REDISTRIBUTION

Unfortunately the evidence gained from our survey of Ontario audiences suggests indeed that the income redistribution effects are perverse. It showed, for instance, that not only do typical theatre-goers have a well-above-average education, but also that at least four-fifths of audience members enjoyed earnings above the Canadian individual median income for 1983. And the finding that a substantial portion of Ontario audiences is wealthy is parallel to the evidence available in other countries.

We saw in Chapter 8 that some US research suggests that it is strictly education rather than income that predicts attendance, although our own econometric study (see Chapter 6) indicates that both variables are independently significant. The conclusion that performing arts subsidies are income-regressive would still be valid, however, even if we accepted the suggestion that education is the key factor explaining attendance. The reason for this is that the higher education that characterizes typical audience members is itself believed to foster higher earnings. Support for this belief in the United States dates back to the publication of work by Hansen and Weisbrod in 1969. They found that US state subsidies benefit the rich relatively more than the poor because of two factors: (1)

the more affluent students typically attend the more prestigious educational institutions where private and public subsidies are relatively high, whereas lower-income students, if they attend at all, typically go to the less prestigious institutions such as community colleges; and (2) a much larger fraction of the higher-income groups attend the state-aided system.<sup>1</sup>

Clearly, much of Hansen and Weisbrod's argument is applicable to Canada. But at the risk of a slight digression, it is important to make a distinction which they themselves failed to make and which illustrates a more deep-seated inequity. Let us refer to Equity Type I as applying to those in the college-ability group. Equity Type II will relate to those between the college-ability and non-college (typically lower ability) groups, or between users and nonusers of the higher educational system. It will be argued here that the equity (or inequity) of the second type is the more important issue.

Equity Type I suffers considerable relegation when equity is measured on the standards of lifetime income streams. On this basis, students who qualify for higher education are not usually poor, or at least they are only transitorially poor during their years of education. They are usually already well educated enough to be able to expect lifetime incomes above the average even if they do not take further schooling. The advantage is especially marked among university-degree holders (the category that is so strongly represented in theatre audiences).

However, more than half of the present Ontario population is without postsecondary education. And in general, this is the sector of the population that contains the lowest-income individuals. A scheme whereby such individuals are taxed to finance subsidies that enable, say, members of the nearly rich family A to become educated in order to approach the standard of living of the members of already rich family B is surely a doubtful contender as a policy of equity. Yet this was the kind of equity (Equity Type II) that most concerned Hansen and Weisbrod.

The equity of such arrangements seems even more dubious when we examine intergenerational redistribution. To oblige poor taxpayers in the high age groups to subsidize the higher education of the eventually more wealthy individuals in the lower age groups amounts to a regressive change. Most people in the lowest-income group, moreover, never become users of the postsecondary educational system because of low endowment of monetary wealth or 'natural talent', or because of an inferior elementary and secondary education (the public system of education is far from homogeneous). Hansen and Weisbrod, to some extent, attempt to cover this point by urging the spread of educational opportunity to this group. But it is not likely that higher education will



ever be completely nonselective, and people may prefer the option of cash redistribution to education.

After completing our short digression into the economics of education, we thus arrive at the conclusion that subsidies to the performing arts do appear to be highly regressive on average because they are enjoyed disproportionately by individuals with postsecondary (and especially university) education, individuals who (a) may expect an above-average lifetime income by virtue of their superior education; and (b) have already received an education that has been partly paid for via the tax system by people in low-income groups who are nonusers of the postsecondary educational system.<sup>1</sup>

Similar conclusions to ours on the distributional effects of subsidies to the arts are to be found elsewhere. The most recent observations on this subject for Canada are to be found in Macaulay Commission (1984, ch. 3). Baumol and Bowen (1966, 84) discovered from their US audience survey that 'the median family income among a typical audience is roughly *twice* as high as that for the total urban population.' Over 60 per cent of the audience for each art form consisted of middle-class people in the professions and all exhibited an extremely high level of education. Explicit estimates for Australia, meanwhile, suggest that the bottom third of households by income class contribute about 30 per cent of the costs of arts subsidies and enjoy only 10 per cent of the benefits, whereas the top 25 per cent of households enjoy 55 per cent of the benefits while contributing only 30 per cent of the costs (Throsby and Withers 1979, 188).

Notice that this kind of measure of redistribution focuses upon income classes as the main criteria. Following our discussion of education (above), however, we believe that the more pertinent criterion or distinction to be made is the one between users and nonusers of the arts. The nonusers are in the majority in Canada (as elsewhere), and this majority is at least as large as that of nonusers of the higher educational system. We are thus left with the sensitive question of why poor nonusers of theatre entertainment are compelled to pay taxes that subsidize the entertainment of the affluent.

#### AN UNRESOLVED PROBLEM

Throsby and Withers (1979, 189) recognize the importance of this question. In their words, 'it is clear from audience data discussed . . . that the distribution of consumers of the subsidized performing arts is markedly skewed towards high income groups.' They conclude, similarly, that grants to the performing arts cannot be regarded as a potential device for income redistribution. Neither can we look to the effects of subsidies on

the distribution of artists' incomes as a prime justification for public subsidy to the performing arts industry. The reason for this latter conclusion is that subsidization of the employment of specific occupational groups is generally regarded as less desirable than general and more simple policies of lump sum transfers across the population as a whole.

Throsby and Withers appear to believe that the problem of regressivity in distribution can begin to be resolved via methods of redesigning subsidies to the arts so that their regressive effects are diminished. No doubt some arguments in this direction are justified, as we can see in our Chapters 7 and 11 where we discuss the advantages of switching marginally from supply to demand subsidies. We should bear in mind, however, that reliance on redesigned subsidies can never remove the problem of regressivity completely so long as attendance at theatres is less than universal. Since the hope that attendance could one day be completely universal is unrealistic, no reform could ever be successful that did not modify the tax as well as the subsidy side of public finance policy. One crude way of attempting this would be to insist that all subsidies are financed from revenues collected from progressive income taxes exclusively. Ironically, a considerable part of public funds in Canada today, as we have seen, derives from the public lotteries which, in view of their monopoly nature and disproportionate participation of low-income groups, can be described in turn as deriving from taxes that are regressive.

So far we have abstracted from problems of external benefits and the desirability of merit good policies. To enquire whether the presence of external benefits would lead to modifications of our conclusions about the regressivity of the subsidy system, we would first need evidence that the externalities exist and are relevant at the margin.

Our survey reported on in Chapter 9 did reveal some weak evidence that the low-income nonusers of the performing arts are still willing to pay tax contributions towards them on the grounds that they produce external benefits such as encouraging national pride, providing desirable benefits for future generations, or providing for option demand in the future. Suppose that we can find still firmer evidence along these lines. Some may then argue that the external benefits enjoyed by the low-income individuals who do not attend the theatre are more than sufficient to outweigh the disbenefits of the taxes paid. But the problem with this argument is that it fails to take into account remaining horizontal inequity.

Consider two individuals in the same income group. Assume also that both of them receive external benefits from arts subsidies and of the

same magnitude. Suppose, however, that one of the two individuals is a theatre attender and the other one is not. The theatre attender will enjoy the benefits of subsidy to the direct use of theatres as well as the external benefits. In this case, which must be expected to be a frequent one, horizontal inequity between the two individuals will persist.

We are still left, therefore, with our conclusion that the public finance of the performing arts, as presently constructed, is unambiguously inequitable in nature. One remaining way to explain the persistence of this situation is to postulate that, in practice, public assistance to the arts has been regarded as a merit good, a good which, as we have seen, is provided as a result of the imposition of the preferences or tastes of one group upon others. Several eminent authorities in the field of cultural economics have, in fact, already subscribed to this view (see, e.g., Throsby and Withers 1979, 192; Robbins 1971).

Another issue that bears on income redistribution is the argument for public support that is based on the concern for future generations (see Chapter 2). The essence of the latter is that 'a program to preserve the arts for the nation's posterity is a case of indiscriminate benefits par excellence' (Baumol and Bowen 1966, 385). The 'program of preservation,' of course, typically calls for tax revenues to finance arts subsidies. But once again we must focus on the precise individuals who are to benefit and those who are to make the sacrifices. Richard and Peggy Musgrave (n.d., 188) observe that the concern for the future generations 'may reflect a broadened application of just distribution rules so as to include intergeneration equity.' The same authors then argue that if technical progress and rising productivity are expected over the next few decades, then members of future generations will be richer than members of the present generation. In this situation there is no argument for a transfer of present income to the future populations; rather, there is a case for the reverse redistribution, which could be accomplished, for instance, via a 'high' social rate of discount.<sup>2</sup> Since most policy makers assume positive growth per capita, this conclusion must hold here.

Peacock (1976) maintains that some form of cultural transfer to future generations could still be justified. He concedes that the expectation of per capita income growth over time appropriately calls for a 'high' social discount rate so that there is no *general* encouragement to investment to benefit future generations. This does not rule out, however, selective support for one item to be made available for future consumption. But if such support is to be forthcoming, he argues, there is still the question of its precise *form*:

If the system of support, as at the present, simply provides a subsidy to a cultural minority in the upper income groups, why should present generations be interested in giving support to the *rich* of a future generation which may be richer anyway? If resources are diverted from other uses, including helping today's poor, in order to preserve our cultural heritage, the future generations argument will surely have more appeal if the benefits we hope they will derive from this diversion are much more widely distributed than they are at present. (78-9)

The persistent merit-good advocate might still insist that since it is typically a cultural minority that most efficiently 'carries the torch' of cultural development and inheritance, then there is no avoiding the redistribution from poor to rich that is involved. To such an advocate, there will be a tradeoff between equity and efficiency with the greater weight being upon the latter.

#### THE ECONOMICS OF POLITICS

We switch now from normative (prescriptive) to positive (explanatory) economics. One way of explaining the persistence of inequity in the financing of the arts in the real world is via an application of the economics of politics. Studies in this area suggest that much of the regressive outcome is inevitable under majority voting rules. Because politicians can employ several types of 'fiscal illusion' and because the poor generally are in the minority and not easily organizable, their needs will be relatively neglected. Meanwhile, as Globerman (1983, 27) has observed, there are different 'markets' for government intervention:

The different groups in society compete for (i.e., demand) government intervention favourable to their own income prospects by lobbying public officials in positions to implement (supply) significant forms of government intervention.

It is well known that different groups in society have strikingly different costs and benefits associated with political lobbying. Ordinary citizens and taxpayers, for instance, are so widely dispersed that the costs of organizing them are prohibitive. Meanwhile, any benefits they may secure from government action will have to be divided among a very large number of beneficiaries. In contrast, groups of employees associated with a given industry have lower costs of political organization since they are usually geographically or professionally concentrated. Moreover, disproportional benefits from government action will accrue to such groups since the costs are spread over the rest



of the population. Political opposition to programs will not be intense because of the diffused cost among nonbeneficiaries.

In this context, it is interesting that after the government of Canada had established, in 1944, a committee of the House of Commons to study the social changes expected in the postwar period, fifteen arts organizations took part in what has been described as an historic 'march on Ottawa' in June of that year. This would seem to be a classic illustration of political initiative from the producers (in contrast to the consumers) of artistic efforts. The organizations argued for a federal commission to investigate the condition of the arts in Canada. This request was ultimately granted with the establishment of the Royal Commission on National Development of the Arts, Letters and Sciences, which came to be known as the Massey Commission. The Commission travelled across Canada for two years and listened to briefs and submissions from artists and other interested members of the public. The economics of politics predicted that the people who attended such public consultations predominantly represented supply interests, for reasons mentioned above. Meanwhile, members of the bureaucracies that are eventually set up to administer the public funds provide another constituency in favour of the maintenance if not the increase of public budgets.

But the arts are no exception; they are only one among literally thousands of economic policies which fit the general model. Other policies that have injurious (inequitable) effects on large numbers of people include tariffs, occupational licensing, price supports and floors, and many other types of special interest legislation. But artists, like medical scientists for example, appear to have been more successful in getting public support than people in other sectors (such as the social sciences and the humanities for instance). Likely it is the visibility of expenditure that is important. And one suspects that politicians enjoy the prestige associated with being patrons of the arts.

The economics of politics thus encourages the economist to eschew the old-fashioned practice of offering advice to (nonworldly) governments that are motivated by benevolence and social justice. From the same point of view, economists can only report the world as it is and leave it at that. In this book, however, we have been proceeding on both positive and normative levels and have been explicitly conscious of the real world institutional barriers to 'ideal' prescriptive economics.

## NOTES

- 1 This conclusion has most recently been reached by Davies and MacDonald (1984). In the authors' words, 'Subsidizing post-secondary

education, even by means-tested grants, clearly does not achieve redistribution towards the lowest expected lifetime earners' (164).

- 2 The Musgraves recommend a higher social rate of discount in these conditions. This logic originated with Gordon Tullock (1984).

# 11

## Policy conclusions

This concluding part of our work will draw upon the previous chapters to make a final assessment of the relevance in Canada of several of the arguments for government intervention that were outlined at the beginning of this report (in Chapter 2). Explicit policy recommendations will follow.

### THE AGGREGATE LEVEL OF SUBSIDY

Our empirical investigations have yielded very little in the way of illustrations of what are technically described as pure public goods (see Chapter 2). We have, however, collected *some* evidence that external benefits from the performing arts are recognized among the public (see Chapter 8). Such findings, however, do not indicate unambiguously that *more* public finance should be devoted to the arts. They might suggest instead that, at present levels of taxation and public expenditures, most of the external benefits have already been internalized. Indeed, our calculations (in Chapter 5) showing that Canada's per capita public expenditure upon culture generally is now in the same broad range as that experienced in France, Austria and West Germany, and over four times that in Britain, may well suggest that the relative 'freezing' of Canadian public support levels since the mid-1970s has not been without some justification.

With respect to the argument for intervention based on the Baumol-Bowen hypothesis (Chapter 2), our evidence of a growth rate in the arts industry in recent years that has outstripped growth in most other sectors would appear to constitute zero support if not clear refutation of their proposition. The Baumol-Bowen hypothesis, it will be recalled, suggested the need for a *continually growing* public arts budget. The argument was that since productivity improvements are concentrated in

other sectors, the average productivity in arts will rise very little, if at all, relative to the rest of the economy. This implied that the arts industry would be suffering continuous cost increases. In fact, during the period investigated (1971-80) there was a decrease of 22 per cent in costs per spectator. These findings appear to offer another endorsement of the recent public policy of stabilizing the real value or level of public subsidies. And if the arts might once have been described as an infant industry, most of the signs now suggest that it has reached full maturity.

The contention that arts activities should be supported by subsidies because they produce a desirable economic impact has been examined in Chapter 8 and found to contain little substance. In a recent seminar organized by the Canada Council, David Cwi (1984), who has engineered several impact studies, stated:

Most research devoted to assessing the economic impact of cultural activities is sponsored by local or state arts councils. Sponsors may cite a general perception that the arts are a frill or a drain on the local economy. They want to attack this perception, and they need economic impact numbers. Almost any number will do as long as it's less than the GNP and greater than zero!

And even if there was some strong validity to the argument with respect to current levels of assistance, this again would not necessarily have argued for marginal *increases* in the total level of subsidy.

Furthermore, even if it were entirely valid, the view that public finance is necessary to preserve the arts for future generations does not necessarily imply that the total level of subsidy should be continually increased. At most, the argument suggests some optimal level of assistance. The evidence produced in Chapters 3 and 5 offers some indication that such a level has been reached, while the evidence from our telephone survey of the general public reported in Chapter 9 indicates that the majority believe that existing levels of expenditure are 'just right'.

## OUTLOOK FOR GROWTH

If government subsidies in the aggregate were to remain constant over the next decade, this would not imply zero expected growth in the arts. Indeed, the years since the mid-1970s have demonstrated a strong capacity for growth without major increases in total government assistance. The expansion has no doubt occurred partly because of increasing incomes and partly because of productivity improvements that have led to a fall in real costs and prices (as reported in Chapter 5).



We have no reason to believe that productivity improvements will not continue. Meanwhile, some idea of the sources of growth on the demand side, independent of projected increases of income, may be obtained from comparisons of the usual socio-demographic profile of the arts audience with that of the expected emerging structure of the population. Consider first our findings (in Chapters 7 and 8) that education, especially higher education, is a major determinant of involvement in the arts. Evidence to the same effect is abundant in the United States. In Canada, to take one example, a study by Picot in 1977 showed that 43 per cent of the theatre audience and 51 per cent of museum and art gallery audiences had some postsecondary education (Picot 1980). In the population as a whole, only 26 per cent had reached this level. Such factors are important because, if education does have some connection with theatre-going, then attendance can be expected to increase if the future population is expected to receive more schooling.

Table 31 shows that the proportion of the Canadian population with postsecondary education is expected to increase from 31 per cent in 1985 to 38 per cent of an expanding population in the next fifteen years. This is mainly because individuals with postsecondary education are one of the fastest-growing segments of the population. Interestingly, television viewing and attendance at films are projected to lag behind population growth because they are less related to education (McCaughey 1984, 4). By contrast, the information in Table 31 may also partly explain the unprecedented expansion in the performing arts audiences between 1971-81. The proportion of the population with postsecondary education increased over this period from 18 per cent to 28 per cent – a growth of 56 per cent.

#### REALLOCATION OF EXISTING SUBSIDIES

While we have found no convincing argument for raising the total level of public subsidy, there does seem to be a strong case for restructuring the allocation. As we have seen, public support for the arts in Canada usually takes the form of supply-side assistance and this is invariably implemented via the arts councils (Chapter 6). Such an arrangement brings an ever-present danger that the public agencies will be tempted to pursue a quiet or congenial life and develop a special relationship with favourite selected clients. The latter are likely to be 'mature' and usually large suppliers of artistic services with whom it is convenient to have an ongoing relationship. The reasoning (in Chapter 2) on externalities suggests that it would be more appropriate to support the small, innovative and less mature suppliers, just as governments aim to support diverse organizations in industrial research. Yet the Canada Council (1979-80,

TABLE 31

Population age 15 and over with some postsecondary education, 1961–2000

	Population (000s)	Postsecondary education <sup>a</sup> (%)
1961	12,406	12
1971	15,288	18
1977	17,453	26
1981	18,609	28
1985 <sup>b</sup>	19,802	31
1990 <sup>b</sup>	20,905	34
1995 <sup>b</sup>	21,962	36
2000 <sup>b</sup>	23,021	38
<i>Growth</i>		
1981–2000	24%	69%

<sup>a</sup> Population age 15 and over.<sup>b</sup> Population projections. See Picot (1980).

SOURCE: Claire McCaughey (1984).

5) has, in fact, declared that, because of its frozen budget (in real terms), 'support to new companies, to younger artists, to those on the frontiers of art and communication, has been seriously curtailed.' The Council explained that it was continuing to support organizations that had 'achieved stature' and that it was unfortunate that it had to restrict aid to 'those who are developing the fresh ideas and forms without which civilization withers.'

#### DEMAND-SIDE SUBSIDIES

One policy solution that could help rectify the situation is to switch, at least at the margin, from supply-side to demand-side support. One example of the latter is the consumer 'coupon' or 'voucher' system as discussed in Chapter 7. There it was shown that experience in the United States demonstrates the success of such schemes in stimulating experimental theatres.

A second advantage of the US type of consumer subsidy (also explained in Chapter 7) is the low cost of administration. This follows from the fact that the 'coupon' arrangement does not require extensive evaluation of theatre proposals or close examination of theatre budgets, as do existing Canadian procedures connected with lump sum grants.

A third advantage is the injection of more consumer sovereignty. The greater the use of the consumer subsidy, the more grants will flow to productions that are most preferred by consumers. Certainly merit good advocates will object that typical consumers are not yet qualified to be

the final arbiters of excellence. Nevertheless, the point remains that in the absence of a more significant vote by consumers (such as that the 'coupon' would bring), the communication between them and the theatres will remain at an undesirable level and unnecessarily high costs will not be eradicated.

Consider next the accumulated evidence showing that the size of future audiences could be increased with more 'exposure to the performing arts' in the schools. Our own surveys (reported in Chapters 8 and 9) also reveal a strong endorsement of this policy by the general public. We have, moreover, examined the different types and meanings of the term 'exposure' in order to reveal the most important of them. Our statistical analysis (see Chapter 6) indicated a clear distinction between child visits to theatres and child participation in the performing arts, with the latter emerging as the strongest predictor of adult attendance at the theatre.

Policy implications here are obvious. Not only should there be increased demand-side subsidies designed to expand audiences through the co-operation of the schools, but school programs should also concentrate on child activity in the arts.

#### OTHER SUBSIDY REFORMS

We saw in Chapter 4 that lump sum subsidies were associated with important disadvantages, especially when compared with consumer subsidies. Another issue to be discussed here is that of the choice between matching and nonmatching grants. Basically, the lump sum subsidy discussed previously is a form of nonmatching grant.

One form of matching grant is the donation subsidy where, for instance, some proportion of a dollar of subsidy is given for every dollar of individual donation received by an arts organization. The deductibility of contributions under the federal personal income tax is one such manifestation of the matching grant. Indeed, it is believed to be by far the largest public performing arts subsidy program today in the United States.

One advantage of the donation subsidy is that it induces further donations and therefore yields to the arts organization a larger increase in revenue per dollar of subsidy than does the lump sum subsidy. Arts donors consist of theatre attenders as well as nonattenders. It has been shown that in the United States, about 40 per cent of those who attend the live performing arts contribute at least occasionally. The equivalent proportion found in our own survey (Chapter 7) is 30 per cent. The incentive to such theatre attenders to donate is clearly linked with the size of the tax deduction available. But another advantage of this type of

matching grant should be mentioned: by enjoying a choice of theatres or performances to which he or she can donate, the donor-attender enjoys some degree of influence over the policies of the theatres themselves. In other words, more consumer sovereignty is granted.

A marginal switch away from the conventional lump sum non-matching grant in favour of an increase in donation subsidies seems, therefore, to be a reasonable proposal on efficiency grounds. It would also begin to meet some of the problems associated with the inequity of the present system that were discussed in Chapter 10.

Assume that such a marginal switch occurs. Assume also that total expenditures on the arts remain constant. Bearing in mind that increased revenues due to increased donation subsidies will be partly derived from donors who attend performances, the fact that the latter will be paying more for their benefits implies that low-income nonusers will be obliged to pay less through compulsory taxes. A full analysis would, of course, have to relax the assumption that total expenditure remains constant after a switch from nonmatching to matching grants (donation subsidies). Constant expenditure is only one possible outcome. Alternative consequences could be increases or decreases in total expenditure depending on the elasticities of demand for donations. However, reforms such as establishing a corporate liaison officer to assist smaller arts organizations in obtaining private contributions would help to ensure a compensating increase in private support (Special Committee for the Arts 1984, recommendation 11.53).

Finally, one should emphasize that paying subsidies in the conventional way as lump sum grants financed by various taxes carries with it two kinds of costs that would not be replicated to the same degree by donation subsidies as described above. First of these is the special costs associated with public bureaucracies. The second is the cost of dead-weight loss associated with taxation (see Ballard et. al 1985).

## CONCLUSION

We must conclude with the observation that, judged in terms of expenditure of public money, Ontario (and Canada) is now in the top international 'league'. Much has been accomplished in the last 15 years, and artists, performers, producers, playwrights, and choreographers, not to mention theatre-goers, are now with us in unprecedented numbers. Self-respecting public arts agencies might wish to claim considerable credit for this state of affairs. But if they do, they would be well advised to look for novel ways to continue in the future. Economic theory suggests that things could be much better even with frozen budget levels, provided that appropriate incentives are provided and there is freedom of entry into the



arts world for both pioneering (if small) newcomers and newer types of audiences. The consumer subsidy would bring about many of these advantages. Suitable tax reform (as described above) could also, meanwhile, relieve the burden on the low-income groups who are typically nonusers of the present performing arts offerings.

It has been asserted that art has nothing to do with the preoccupation of the economist. The artist's insistence on the supremacy of aesthetic goals contrast with the mere materialistic concerns of the economist: 'He [the artist] makes the economist feel dull, routine, Philistine, and also sadly unappreciated for his earthly concern' (Galbraith 1963).

In this book it has been argued that the 'two worlds' of art and economics cannot, in fact, be separated. Artistic activity involves economics because scarce resources are inevitably employed. And if they are constrained to be used in one particular way rather than others, then the forgone alternatives constitute opportunity costs that have to be faced. Where, moreover, society obliges its citizens to pay taxes in order to subsidize the arts, the principle of government by consent demands at least some minimum attempt at a rationale. This does not mean, as Galbraith (1963) appears to suggest, that the economist insists on an accounting of the benefits exclusively in materialistic terms. He or she sees the citizens as utility maximizers. Their agreement to tax themselves to finance cultural pursuits or environments can be fully consistent with this objective.

We have produced evidence to show that, even though they do not themselves attend the theatre, many taxpayers are still willing to contribute to it. But since their incomes are finite, their willingness too must also be limited. Information on the appropriate boundaries of public finance is thus a primary need, and it is one that we have partially attempted to meet.

Beyond this it has been argued that performing arts have a dynamic aspect in that entirely new productions or novel approaches to available works often appear. This aspect of the arts implies the need for continual selection and evaluation. To concentrate such a process entirely in the hands of official 'experts' or professional peers is one way of proceeding – indeed, this is already the typical practice in many countries. We have argued, however, that for Canada there is room for compromise by way of liberalization or 'democratization' so that the citizen/taxpayer/consumer can have increased influence. Such a state of affairs, it is predicted, would bring more efficiency via increased competition as well as more equity and independence. And none of these objectives is inimical to cultural development.

# Appendix A

## Performing arts audience survey: Ontario 1983

EXHIBIT 1: Results of theatre questionnaire

		TOTAL	%
Q1	<i>Ticket discounts</i>		
	Normal (no discount)	179	36.3
	Subscription	243	49.3
	Student	11	2.2
	Senior citizen	9	1.8
	Group	10	2.0
	Complimentary	41	8.3
Q2	<i>Travel</i>		
	Within 15 mile radius	372	75.5
	Not within 15 mile radius	116	23.5
Q3	<i>Childhood experience</i>		
	Taken by parents to theatre as a child	255	[51.7]
	Not taken to theatre as a child	234	47.5
Q4	<i>Childhood participations</i>		
	Participated as a child	353	[71.6]
	Did not participate as a child	137	27.8
Q5	<i>Occupation</i>		
	Executive/Managerial	133	27.0
	Teacher	67	13.6
	Professor	15	3.0
	Student	40	8.1
	Housewife	40	8.1
	White collar	34	17.0
	Blue collar	7	1.4
	Retired	15	3.0

	Others	85	17.2
Q6	<i>Education</i>		
	Less than 4 years high school	26	5.3
	High school diploma	99	20.1
	Community college	34	6.9
	University	200	40.6
	Graduate	132	26.8
Q7	<i>Mother's education</i>		
	Less than 4 years high school	191	38.7
	High school diploma	157	31.8
	Community college	55	11.2
	University	61	12.4
	Graduate	20	4.1
Q7	<i>Father's education</i>		
	Less than 4 years high school	221	44.8
	High school diploma	115	23.9
	Community college	35	7.1
	University	71	14.4
	Graduate	51	10.3
Q8	<i>Income (000's)</i>		
	0 – 15	102	20.7
	15 – 30	142	28.8
	30 – 50	149	30.2
	50 +	74	15.0
Q9	<i>Age (yrs)</i>		
	0 – 20	13	2.6
	20 – 30	99	20.1
	30 – 40	146	29.6
	40 – 50	99	20.1
	50 +	103	20.9
Q10	<i>Gender</i>		
	Male	198	40.2
	Female	283	57.4
Q11	<i>Perception of proportion of cost of each seat covered by ticket price</i>		
	All	12	2.0
	At least 3/4	50	12.0
	At least 1/2	95	23.0
	At least 1/4	72	17.9

	Less than 1/4	32	7.9
	No idea	113	28.0
Q12	<i>Perceived government subsidy of remainder</i>		
	All	14	3.9
	3/4	17	4.7
	1/2	65	17.9
	1/4	81	22.3
	None	20	5.5
	No idea	116	31.9
Q13	<i>Opinion on priority in government policy</i>		
	Improve quality	101	20.5
	Price reduction	68	13.8
	Increase number of companies	61	12.4
	Increase exposure to schools	186	37.7
	Improve facilities	30	6.1
Q14	<i>Personal donations</i>		
	Donates some portion of personal income	148	30.0
	Does not donate personal income	328	66.5
Q15	<i>Auxilliary activities</i>		
	Dining out	270	54.8
	Drinks	193	39.1
	Museum/Art gallery	20	4.1
	Auxilliary purchases	37	7.5
	Future ticket purchase	43	8.7

NOTE: Total number of returned questionnaires=493, except for questions 11 (403 responses) and 12 (363 responses). Where percentages do not add to 100, questions were left unanswered or answered incorrectly. The nine organizations whose audiences were surveyed include: Canadian Opera Company, National Ballet, Tarragon Theatre, Theatre Passe Muraille, Toronto Arts Productions, Toronto Dance Theatre, Toronto Free Theatre, Toronto Symphony, and Toronto Workshop Productions.



EXHIBIT 2: Theatre questionnaire

This questionnaire has been constructed in an attempt to determine some of the identifying characteristics of those people who currently attend our theatres. The survey is part of an independent study of the performing arts in Ontario sponsored by the Ontario Economic Council. Your participation is gratefully appreciated. No identification is necessary: all completed questionnaires will be treated in strict confidence.

To complete the questionnaire, simply mark the appropriate box for each question.

Q1      Was the price of your ticket for this show reduced by any of the following discounts?

- |                         |                          |
|-------------------------|--------------------------|
| Subscription series     | <input type="checkbox"/> |
| Student discount        | <input type="checkbox"/> |
| Senior citizen discount | <input type="checkbox"/> |
| Group discount          | <input type="checkbox"/> |
| Complimentary           | <input type="checkbox"/> |

Q2      Do you live within a 15 mile radius of this theatre?

- |     |                          |
|-----|--------------------------|
| YES | <input type="checkbox"/> |
| NO  | <input type="checkbox"/> |

Q3      Were you taken to the theatre as a child by your parents or by your school, on average at least once a year?

- |     |                          |
|-----|--------------------------|
| YES | <input type="checkbox"/> |
| NO  | <input type="checkbox"/> |

Q4      Did you participate in any performing art as a child? (for example school drama, dance, musical instrument etc.)

- |     |                          |
|-----|--------------------------|
| YES | <input type="checkbox"/> |
| NO  | <input type="checkbox"/> |

Q5 Occupational classification (mark one box)

- Executive/managerial ☐
- Teacher ☐
- Professor ☐
- Student ☐
- Housewife ☐
- White collar ☐
- Blue collar ☐
- Retired ☐
- Other ☐

Q6 Your educational classification (mark one box)

- Less than 4 years high school ☐
- High school diploma ☐
- Community college ☐
- University ☐
- Graduate school ☐

Q7 Your parents' educational classification (mark one box)

MOTHER:

- Less than 4 years high school ☐
- High school diploma ☐
- Community college ☐
- University ☐
- Graduate school ☐

FATHER:

- Less than 4 years high school ☐
- High school diploma ☐
- Community college ☐
- University ☐
- Graduate school ☐

Q8 Annual income (mark one box)

- \$ 0 - 15,000 ☐

- |                 |                          |
|-----------------|--------------------------|
| 15,000 - 30,000 | <input type="checkbox"/> |
| 30,000 - 50,000 | <input type="checkbox"/> |
| 50,000 and over | <input type="checkbox"/> |

Q9 Age:

PLEASE STATE YOUR AGE \_\_\_\_\_

Q10 Sex:

- |   |                          |
|---|--------------------------|
| M | <input type="checkbox"/> |
| F | <input type="checkbox"/> |

Q11 What *proportion* of the cost (to the theatre) of your seat would you estimate to be covered by the price you paid for your ticket? (The cost of your seat is defined as the total cost of putting on tonight's show, divided by the number of seats in the theatre.)

- |                           |                          |
|---------------------------|--------------------------|
| All of the cost           | <input type="checkbox"/> |
| At least 3/4 of the cost  | <input type="checkbox"/> |
| At least 1/2 of the cost  | <input type="checkbox"/> |
| At least 1/4 of the cost  | <input type="checkbox"/> |
| Less than 1/4 of the cost | <input type="checkbox"/> |
| No idea                   | <input type="checkbox"/> |

Q12 If your answer to the previous question is less than 'all of the cost', how much of the *remaining* cost to the theatre would you estimate to be covered by government subsidy:

- |                            |                          |
|----------------------------|--------------------------|
| All of the remaining cost  | <input type="checkbox"/> |
| 3/4 of the remaining cost  | <input type="checkbox"/> |
| 1/2 of the remaining cost  | <input type="checkbox"/> |
| 1/4 of the remaining cost  | <input type="checkbox"/> |
| None of the remaining cost | <input type="checkbox"/> |
| No idea                    | <input type="checkbox"/> |

Q13 Which of the following would you choose as the priority for government subsidies to the performing arts? (Mark one box)

- Improving quality (of an optional small number of large companies) ☐
- Lowering ticket prices ☐
- Increasing the number of companies ☐
- Increasing exposure to the performing arts in schools ☐
- Improving facilities in theatres ☐

Q14 Do you presently donate some portion of your personal income to the performing arts?

- YES ☐
- NO ☐

Q15 Do you normally combine any of the following activities with a trip to the theatre specifically?(mark where applicable)

- Dining out ☐
- Drinks ☐
- Visits to an art gallery or museum ☐
- Purchasing of items associated with either a performing art or a specific show (for example, books, posters, souvenirs, records, etc.) ☐
- Purchasing of tickets for future performances ☐

Can you please return your questionnaire to our representatives or place them in the boxes which are located near the main exits.

THANK YOU FOR YOUR CO-OPERATION



## Appendix B

### Telephone survey methodology

The sample for our survey of the general public consisted of 463 telephone interviews, completed with individuals who were over eighteen years of age and resident in Ontario.

The survey was conducted in four main areas – Windsor, Toronto, Ottawa and Sudbury – and reflected both population distribution and regional location. The number of completed surveys used in the final analysis reflected the relative population size of each area within the overall sample.

Computer-generated random numbers were applied in a uniform distribution over all available exchange codes for a given area.

The questionnaires were completely scripted (see Exhibit 3 below). In addition, interviewers were trained in standard survey procedure and were supervised while surveying. Prior to each interview, a 'respondent selection grid' was employed in order to neutralize any bias relating to the day or time of the call and relative availability of respondents. Calls were made only after 5.30 p.m. on weekdays and on weekends. Each call was recorded under the following categories: 'call answered'; 'call terminated'; 'call completed'; 'no reply'; 'busy'; 'call back'; and 'other' (numbers not in service, business, etc.). A total of 3,064 calls were made, of which 1,077 were answered and from which 502 completed surveys were obtained. There were a total of 49 'call-backs'.

EXHIBIT 3: Performing arts phone survey

Town/City \_\_\_\_\_

Sample A

*Introduction*

Hello, my name is (full name). As a part of a research project at Carleton University in Ottawa, we are interested in learning your opinion on a number of issues concerning the way people spend their spare time. Your phone number was selected at random to help us understand the views of people in the (town or city) area. My call should only take a few minutes. With your permission I would like to begin.

To make sure we get a good sample, could you tell me how many adults live in your household? And how many adult men live in your household? (Use respondent-selection grid) Could I speak to \_\_\_\_\_. (If not original respondent repeat introduction.)

Q1 Thinking now about entertainment, do you ever go to see live theatre shows?

YES	1
NO	2

Q2 Have you been to a live performance of a play, or a classical music concert in the last year?

YES	1
NO	2

Q3 How about dance or opera; have you been to see a live performance in the last year?

YES	1
NO	2

Q4 (ASK ONLY IF YES ANSWERED TO Q2 or Q3) Have you bought subscription tickets for a series of live shows in the last year?

YES	1
NO	2

Q5 Thinking back to when you were a child, where you ever taken to see live performances of drama, dance, classical music or opera?

- |     |                |
|-----|----------------|
| YES | 1              |
| NO  | 2 (Skip to Q7) |

Q6 Who used to take you to these shows?

- |         |   |
|---------|---|
| PARENTS | 1 |
| SCHOOL  | 2 |
| OTHER   | 3 |

Q7 Did you ever participate in activities like high school drama, dancing or learning a musical instrument when you were a child?

- |     |   |
|-----|---|
| YES | 1 |
| NO  | 2 |

Q8 In 1981 each adult in Ontario paid an average total of \$3.35 a year in taxes towards supporting the current level of drama, dance, classical music and opera in the province. Do you think that \$3.35 a year in taxes is [Probe and Rotate following questions]

- |            |                 |
|------------|-----------------|
| Too little | 1               |
| Too much   | 2               |
| Just right | 3 (skip to Q10) |
| Don't know | 4 (skip to Q10) |

Q9 Since you think that \$3.35 a year is too little/too much, how much more/less would you be willing to pay in taxes if you knew the total taxes you pay would not change no matter what you decided.

Amount stated \_\_\_\_\_

Total (\$):

- |         |   |
|---------|---|
| 0 - 2   | 1 |
| 3 - 5   | 2 |
| 6 - 9   | 3 |
| 10 - 14 | 4 |

15 – 19	5
20 – 29	6
30 – 39	7
40 – 49	8

*READ:*

Of course governments spend our taxes on all kinds of things, apart from the arts. To give you an approximate idea; in 1981 each adult in Ontario paid on average:

\$650	per year in taxes towards education
\$ 15	per year in taxes towards pollution control
\$ 7	per year in taxes towards housing
\$ 7	per year in taxes towards tourism
\$ 1	per year in taxes towards firefighting
\$ 30	per year in taxes towards police
\$ 11	per year in taxes towards recreation

and remember, each adult paid

\$3.35 per year in taxes towards drama, dance, classical music and opera.

**Q10** How would you feel about increasing/decreasing the amount of money governments spend on drama, dance, classical music and opera, if it meant a decrease/increase in other services like the ones I have just mentioned? Would you favour:

An increase in spending on drama, dance, etc.	1
A decrease in spending on drama, dance, etc.	2
No change (skip to Q12)	3
Don't know (skip to Q12)	4

**Q11** Which service would you most like to see cut/increased if spending on the arts went up/went down?

Specify \_\_\_\_\_



Q12 Since you personally do not go to live performances of drama, dance, classical music or opera, what benefits, if any, do you feel you get from these things in return for paying taxes towards them?

- Brings business to the area 1
- Anticipated future use 2
- National pride 3
- Future generations 4
- Educational importance 5
- Other
- Specify: \_\_\_\_\_ 6

Q13 Thinking now about the tickets we buy when we go to see a show or a concert. I know that you are probably not an expert but would you say that most performing groups make enough money from selling tickets to cover their costs?

- YES 1 (skip to Q16)
- NO 2
- Don't know 3

Q14 If you had to give an estimate how far would you say the money from selling tickets goes in covering the costs of putting on a performance of drama, dance, classical music or opera on average?  
[PROBE]

- 3/4 OF THE COST 1
- 1/2 OF THE COST 2
- 1/4 OF THE COST 3
- LESS THAN 1/4 OF THE COST 4

Q15 Since you think that (response to previous question) of the costs are covered by ticket sales that still leaves (remaining fraction) of the costs uncovered. How much of these remaining costs would you say are paid for by the government?

- ALL THE REMAINING COSTS 1
- 3/4 OF THE REMAINING COSTS 2
- 1/2 OF THE REMAINING COSTS 3
- 1/4 OF THE REMAINING COSTS 4
- LESS THAN 1/4 OF REMAINING COSTS 5

Q16 Now I'd like you to imagine you were the government. As the government, you have a fixed number of dollars to spend on the performing arts. Which one of the following would you choose as your top priority?

IMPROVING QUALITY	1
LOWERING TICKET PRICES	2
INCREASING THE NUMBER OF COMPANIES	3
INCREASING THE EXPOSURE TO	
PERFORMING ARTS IN THE SCHOOLS	4
IMPROVING FACILITIES IN THEATRES	5

Q17 I'd like you to think now about cultural activities in general. The words cultural activities mean different things to different people. What sorts of things do you think of when you hear the words cultural activities, apart from drama, dance, classical music and opera?

BOOKS/PUBLISHING	1
ART GALLERIES/MUSEUMS	2
PAINTINGS/SCULPTURES	3
FILM	4
RECORDS/CASSETTES	5
CRAFTS	6
MULTICULTURALISM	7
ARCHIVES	8
LIBRARIES	9
TV/RADIO	10
HERITAGE	11

Q18 I'd like to read you a list of things which Statistics Canada have included in their definition of culture. They include art galleries, museums, books and publishing, painting and sculptures, film, records and cassettes, crafts, multiculturalism, public archives, libraries, TV and radio, and heritage.

I'd like you to think now about this *whole package* of cultural activities. In 1981 it cost each adult in Canada an average total of \$128 a year in *taxes* to maintain these activities at their 1981 levels. [Probe and rotate following questions]

Do you think that \$128 a year in taxes is

- Too little 1
- Too much 2
- Just right 3 (skip to Q20)
- Don't know 4 (skip to Q20)

Q19 Since you think that \$128 a year is *too little/too much*, how much *more/less* would you be willing to pay.

If you knew that the total amount of taxes you pay would not change, no matter what you decide.

AMOUNT STATED \_\_\_\_\_

TOTAL:

- 0 - 29 1
- 30 - 59 2
- 60 - 89 3
- 90 - 109 4
- 110 - 119 5
- 120 - 129 6
- 130 - 139 7
- 140 - 149 8
- 150 - 169 9
- 170 - 200 10
- NO RESPONSE 11

Finally I'd like to ask you some quick questions about yourself.

Q20 What is your job?

STATED \_\_\_\_\_

- Higher prof. owners and managers 1
- Semiprofessional 2
- Skilled white collar 3
- Unskilled white collar 4
- Skilled blue collar 5
- Semi or unskilled blue collar 6
- Farmer 7
- Housewife 8

Student	9
Unemployed	10
Retired	11

Q21 How far did you go in school?

Less than 4 years high school	1
High school diploma	2
Community college	3
University	4
Graduate school	5

Q22 I understand that you may not wish to disclose your income. However we would like to know the range in which it lies. Is your household income between. [PROBE]

0 and 15,000	1
15,000 and 30,000	2
30,000 and 50,000	3
above 50,000	4

Q23 What age bracket are you in? [PROBE]

UNDER 20	1
20 - 29	2
30 - 39	3
40 - 49	4
50 - 59	5
60 AND OVER	6

Q24. What language do you normally speak when you are at home?

ENGLISH	1
FRENCH	2
OTHER (SPECIFY)	3

Q25 Sex (not asked)

MALE	1
FEMALE	2



That is the end of my questionnaire. Thank you very much for your co-operation. Goodbye.

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